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U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE MISSION TO ISRAEL

SEPTEMBER 11, 1984

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LETTER OF TRANSMITTAL

SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS,
Washington, DC, September 11, 1984.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, Longworth House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: I am pleased to transmit to you this report on the Committee on Ways and Means trade mission to Israel and Portugal. This report contains background information on the mission, highlights of meetings with Israeli officials and businessmen, and our conclusions.

Between August 11–18, 1984 the Subcommittee on Trade conducted a fact-finding mission to Israel for the primary purpose of examining Israel's agricultural and industrial capacity in connection with our consideration of the proposed U.S.-Israel Free Trade Area (FTA). Seven Members of the full Committee participated in the mission, including Mr. Downey, Mr. Guarini, Mr. Conable, Mr. Frenzel, Mr. Schulze, Mr. Thomas and me. In addition, Mr. Bill Green, a member of the Committee on Appropriations, joined our delegation.

The delegation concluded its mission in Portugal, a key NATO ally of the United States. Members of the delegation agreed that it will be necessary to closely monitor the Portuguese trade situation in light of that country's forthcoming accession to the European Economic Community (EC).

In Jerusalem, the delegation met with the President of the State of Israel, the Prime Minister, the Minister of Finance, and top Israeli trade and economic officials. In Tel Aviv, we met with Labor Alignment Chairman and Prime Minister-designate, Shimon Peres, and Labor's financial leader, Gad Ya'acobi. Talks were also held with trade union leaders and senior executives from Koor Industries, the Scitex Corporation (a high-tech company), the Manufacturer's Association of Israel and the Israel-America Chamber of Commerce. The delegation traveled to the Dead Sea to tour the facility of the Dead Sea Bromine Works and also visited the agricultural facilities of Kibbutz Gan-Shmuel near Hadera.

I can report that the Members were particularly impressed by the important discussions held with Israeli authorities. These discussions provided valuable insight into the current economic and political aspects of our bilateral trade relations and they have added a new depth of understanding to the proposed Free Trade Area. Despite the political divisions, it was clear to the delegation that the Israeli leaders were united in their enthusiasm for the establishment of the FTA. The Israeli business community, while receptive to the proposal, did voice certain concerns detailed in the report.

The plant tours demonstrated the modern and efficient production techniques, both agricultural and industrial, utilized by the Israelis. The visits to the Dead Sea and to the Galilee pointed up not only the vast differences within the country, but also the Israelis' unique ability to exploit their limited natural resources.

Although Israel has a reasonably high standard of living, the delegation found that the country is beset by a severe economic crisis: A 400 per cent annual inflation rate, chronic balance of payments deficits, rising unemployment (now about 6 per cent), and a rapid devaluation of the shekel (falling about 1 per cent a day). Foreign currency reserves are also at a dangerously low level.

Further, as a country with limited natural resources, Israel has to import a large part of its fuel, machinery, and raw materials for processing. Israel's merchandise trade balance is consistently negative and exports have continued to decline in recent years. Moreover, nearly one-third of the budget goes to defense expenditures, including the U.S. contribution, and the mandatory 45 day military reserve duty for all civilians impacts heavily on the Israeli economy and its trade potential. With the exception of Egypt, trade does not exist between Israel and its immediate neighbors.

On the positive side, the Israelis have begun to emphasize the growth of their high technology industries and they are attempting to shift the emphasis away from agriculture to high-technology growth. The Israelis believe that the future of their industry is tied to the development of high technology and service industries with the expectation that this will upgrade the international competitiveness of the Israeli economy.

As a result of this trip, I am more convinced than ever that it would be in the U.S. interest to authorize the establishment of a Free Trade Area between the United States and Israel. With the final phase-in of the EC-Israel Free Trade Agreement, U.S. producers will be at an increasing competitive disadvantage in the Israeli market. Clearly, U.S. producers should be far more competitive than the EC in this market. At present, nearly one-half of U.S. exports to Israel are dutiable and additional Israeli nontariff barriers are present. I also believe that our agriculture exports would increase under this arrangement. The United States already enjoys a trade surplus with Israel in this sector.

Although their exports will increase to the U.S., Israel is in no position to flood our market with low cost, labor-intensive products. The Israeli labor force and geography are limited in size, and labor costs are significantly higher than in other developing countries. Securing permanent access to the Israeli market will provide far greater potential for U.S. exports to Israel than for Israeli exports to the United States. Ninety percent of total U.S. imports from Israel already enter duty-free on a permanent basis or under the Generalized System of Preferences (GSP).

There are three issues, however, that I am deeply concerned about in the Israeli economy. First, the complex system of indexing that is used by the government to keep pace with inflation is a major problem. This system, which automatically adjusts income tax brackets, wages, and pensions for the rise in the consumer price index is, I believe, a major impediment to getting Israel off the inflationary spiral.

While some believe this indexation has allowed the Israelis to cope with inflation, there are serious detrimental effects on the economy.

Secondly, the chronic balance of payment deficit is a concern to the fair operation of a bilateral Free Trade Area. Since, under the GATT, developing countries can impose tariffs or other restrictions to protect infant industries or as a temporary balance of payments measure, I am concerned that such a provision could be used as pretex for protectionism or for relief from their obligations under the FTA. I believe the agreement should contain a provision which limits the application of such measures.

Finally, and probaby most important, is the presence of government export subsidies in the Israeli economy. It is clear that the existence of subsidies to exporting industries is not only a major issue in the negotiation of the agreement, but also is of concern to the Congress. Israeli industry leaders claimed that subsidies are essential to compensate for Israel's defense burden, high transportation costs, and exchange rate problems.

Members of the delegation made it quite clear that the continuation of subsidies would be a major issue in Congressional review of the FTA. On numerous occasions, we pointed out the trade distorting effect of the subsidies, the need for Israel to exercise some discipline over subsidies, and the opposition of the U.S. business community. Further, Israeli subsidies could be actionable under U.S. countervailing duty law. We strongly urged Israeli government and business leaders to accept an agreement which phases out these subsidies as soon as possible.

When a strong, stable government is finally formed in Israel, it will certainly need to take quick action on the economic situation including the possible imposition of austerity measures such as budget cuts, reduction in subsidization and other fiscal reforms.

Finally, I want to express my strong interest in securing early passage of H.R. 5377, the bill to authorize the Free Trade Area. As I indicated to the Israeli Government, I would also be interested in exploring the possibility of establishing similar free trade arrangements with the Arab nations in the region. In addition to the purely economic benefits which can be derived from expanded trade, I believe that commerce and trade can provide a foundation for peace and security not just in our time, but for future generations as well.

Sincerely,

SAM M. GIBBONS, *Chairman.*

Enclosure.

Members of the Delegation

Hon. Sam M. Gibbons, Chairman, Hon. Thomas J. Downey, Hon. Frank J. Guarini, Hon. Barber B. Conable, Jr., Hon. Bill Frenzel, Hon. Richard T. Schulze, Hon. William M. Thomas, and Hon. Bill Green.

Staff.—Franklin C. Phifer, Jr., Thelma J. Askey, and Gracelia P. Sullivan.

Meetings

Prime Minister Yitzhak Shamir.

President Chaim Herzog.

The Honorable Yigal Cohen-Orgad, Minister of Finance.

The Honorable Gideon Patt, Minister of Industry and Trade.

The Honorable Meir Ben-Meir, Director General, Ministry of Agriculture.

The Honorable Hanan Bar-On, Deputy Director, Ministry of Foreign Affairs.

The Honorable Shimon Peres, Chairman, Labor Alignment and Prime Minister-designate.

The Honorable Gad Ya'acobi, Labor Alignment Economic Advisor.

The Honorable Israel Kessar, Secretary-General, Histadrut and Mr. Danny Rosolio, Hervat Ovdim, Secretary General.

The Honorable Samuel W. Lewis, U.S. Ambassador.

Mr. R. Daphney, Deputy Director, Yad Vashem.

Manufacturer's Association of Israel.

Israel-America Chamber of Commerce.

Scitex Corporation: Meeting with executives and plant tour.

Israel Chemicals, Ltd., and Dead Sea Bromine Works: meeting with executives and plant tour.

Kibbutz Gan Shmuel: meeting with executives and tour of tomato processing plant.

Koor Industries.

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REPORT ON TRADE MISSION TO ISRAEL

Overview of the Mission

The visit of a Congressional delegation from the Committee on Ways and Means to Israel between August 11–18, 1984 came during Congressional review of bilateral trade negotiations and legislation to establish a U.S.-Israel Free Trade Area (FTA). The Subcommittee on Trade of the Committee on Ways and Means has been considering legislation to authorize the President to negotiate and enter into a reciprocal trade agreement between the United States and Israel which would provide for the elimination of duties and non-tariff barriers.

In order to give the committee a better opportunity to assess the potential impact of a Free Trade Area with Israel, a fact-finding mission was conducted for the purpose of inspecting Israel's agricultural and industrial capacity. The mission followed three days of public hearings on the subject, briefings by Administration officials, meetings with the Israeli Ambassador and diplomats, and a subcommittee executive session with U.S. Trade Representative Brock and U.S. trade negotiators.

In Jerusalem, the delegation had the opportunity to meet privately with the President of the State of Israel, the Prime Minister, the Minister of Finance, and top Israeli trade and economic officials. In Tel Aviv, the delegation met with Labor Alignment Chairman and Prime Minister-designate, Shimon Peres, and Labor's Financial Leader, Gad Ya'acobi. The talks were also held with leaders of Israel's labor federation and with senior executives of Israel's major industries, including Koor Industries, the Scitex Corporation, the Israel-America Chamber of Commerce and the Manufacturers Association of Israel.

The delegation also travelled to the Dead Sea to tour the facility of the Dead Sea Bromine Works and visited the agricultural facilities of Kibbutz Gan-Shmuel and the Galilee. In addition, Congressman Thomas made separate visits to agricultural sites throughout Israel and Mr. Frenzel met with the Governor of the Bank of Israel. Chairman Gibbons and Congressman Downey also had the opportunity to visit informally with members of the Kibbutz Gal-On. Finally, the delegation held an hour-long press conference in Tel Aviv with members of the U.S., Israeli and foreign press.

The delegation's visit was given a great deal of emphasis by the Israeli leaders and media. U.S. Ambassador Samuel W. Lewis accompanied the delegation to all high-level talks. Throughout the mission, the delegation was assisted by Mr. William Brew, Economic Counselor of the U.S. Embassy, and Ms. Nancy Adams of USTR, members of the U.S. negotiating team.

Proposed United States-Israel Free Trade Area

LEGISLATIVE AUTHORITY FOR FREE TRADE AREA

At the present time, the President does not have authority to enter into or implement a free trade area agreement with Israel. On April 5, Mr. Downey introduced *H.R. 5377* (with Mr. Gibbons, Mr. Vander Jagt, Mr. Frenzel, Mr. Gephardt, and Mr. Fauntroy as cosponsors) authorizing the President to enter into a "reciprocal and mutually advantageous" trade agreement with Israel providing for continuation of existing duty-free treatment and elimination of existing duties and other import restrictions on products from Israel. The bill also authorizes the President to proclaim changes in U.S. tariff treatment and other import restrictions to carry out the agreement.

The Subcommittee held hearings on the bill on May 22 and June 13 and 14 and an initial, conceptual discussion of the bill in executive session on June 26. [See Hearings 98–72, 2nd Session (1984)]. On September 12, 1984, the Subcommittee reported a substitute version of H.R. 5377 to the full Committee on Ways and Means.

On June 12 the Senate Finance Committee reported *S. 2746*, a bill amending section 102 of the Trade Act of 1974 to authorize the President to negotiate on tariffs, as well as on nontariff barriers to which that provision presently applies. Trade agreements involving tariffs under this new authority could only be negotiated with Israel and Canada, unless the President first notifies the House Committee on Ways and Means and the Senate Committee on Finance and neither Committee disapproves the proposed negotiation with any other country. Implementation of any trade agreement entered into, including with Israel, would be subject to subsequent Congressional approval under the expedited no-amendment procedures of the Trade Act.

BACKGROUND

On November 29, 1983, President Reagan and Israeli Prime Minister Shamir agreed to proceed with bilateral negotiations originally proposed by the Israeli Government in 1981 with a view to concluding a U.S.-Israel free trade area to eliminate tariffs and other trade distorting practices between the two countries. Since 1981, the U.S. Government has reviewed the economic and political merits of the proposal and determined the United States could gain substantially from a free trade area with Israel. The Office of U.S. Trade Representative has been heading the negotiations for the United States since they began in mid-January 1984.

Unlike the Caribbean Basin Initiative (CBI) authorized by the Congress in 1983 under the Caribbean Basin Economic Recovery Act (P.L. 98–67), the U.S.-Israel arrangement would be a *two-way* free trade area. Article XXIV of the General Agreement on Tariffs and Trade (GATT) permits free trade areas or customs unions as a deviation from the nondiscrimination, most-favored-nation (MFN) principle of Article I if the agreement meets certain criteria.

A free trade area with Israel would be the first such arrangement entered into by the United States with any country aside from the bilateral free trade arrangement with Canada in the automotive sector only.

EC-ISRAEL FREE TRADE AREA

In 1975 the European Communities (EC) and Israel established a bilateral free trade area on industrial products. EC imports of most industrial goods were granted duty-free treatment after July 1, 1977, with full concessions on certain sensitive items (refined petroleum products, textiles, and certain chemicals) delayed until December 31, 1979. Israel's concessions to the EC were staged over a much longer period of time. Israel eliminated tariffs on about 60 percent of its industrial imports from the EC between 1975 and 1980. Israel is due to complete staging of duty-free treatment for the remaining more sensitive products by no later than 1989.

Coverage of agricultural products under the free trade area is much more limited. The EC offered preferential tariff treatment on 80 percent of its agricultural imports from Israel, including citrus products, but the Common Agricultural Policy remains in effect (especially the imposition of a reference price for certain fruits and vegetables). Israel's agricultural tariff concessions to the EC were minimal, consisting of reductions of 15 to 25 percent on only about one percent of total EC agricultural exports to Israel. Under the agreement, Israel must also eliminate all quantitative restrictions on imports from the EC by 1985.

CURRENT UNITED STATES/ISRAEL TARIFF TREATMENT UNDER GSP

Israel is a beneficiary of duty-free treatment on eligible imports under the U.S. Generalized System of Preferences (GSP) as a result of a bilateral Understanding entered into with the United States in October 1975. Section 502(b)(3) of the Trade Act of 1974 authorizing GSP requires that GSP beneficiaries eliminate any "reverse" preferential treatment which they grant to developed countries "with a significant adverse effect on U.S. commerce."

In order to obtain GSP eligibility in view of its preferences to the EC under the free trade area, Israel agreed in a bilateral GSP Understanding to lower its MFN duties on 132 items of export interest to the United States on an unbound basis to the EC preferential rate level if specified criteria were met.

Israel is the seventh largest annual beneficiary of the U.S. GSP program. Duty-free GSP imports totalled $474 million or 38 percent of total imports from Israel in 1982 of $1,250 million. Israeli preferential treatment of U.S. exports under the GSP Understanding would terminate if Israel's benefits under the GSP program expire.

UNITED STATES-ISRAEL TRADE

The United States is Israel's major trading partner, providing a market for about 25 percent of Israel's total exports and supplying about 20 percent of its total non-military imports. The United States has enjoyed a trade surplus historically and consistently with Israel despite the fact that a substantially larger proportion of U.S. exports to Israel are subject to tariff protection than Israel exports to the United States. In 1983, the U.S. trade surplus was about $400 million, excluding military goods.

Israel currently imports from all sources about $8 billion worth of goods and $6 billion worth of services, excluding imports for military use. U.S. total non-military exports to Israel in 1982 were about $1.5 billion and about $1.7 billion in 1983. Based on 1982 data, about 60 percent of total U.S. exports to Israel currently enter duty-free, including 22 percent on an MFN bound basis. Israeli Government purchases of agricultural products duty-free totaled about $300 million in 1983. Over 40 percent of total U.S. nonmilitary exports to Israel are currently dutiable at an average ad valorem duty exceeding 10 percent. The major U.S. dutiable exports to Israel are motor vehicles, electrical goods and apparatus, kraftliner, synthetic yarns, automatic data processing machines, fasteners, medical apparatus and controlling instruments.

After the full implementation of the EC-Israel free trade area in 1989, U.S. dutiable exports will face an average tariff disadvantage of about 10.5 percent in relation to European exports to Israel entering duty-free. Already U.S. products are facing an increasing disadvantage in the Israeli market as the EC-Israel free trade area is completed. The EC will also gain a margin of preference on the products covered by the GSP Understanding. The economic advantage to the United States of a free trade area would be elimination of tariff barriers on nearly one-half of U.S. exports to Israel and removal of the EC competitive duty-free advantage, particularly in industrial products which directly compete with the EC or are not covered by the GSP Understanding. An arrangement also offers the opportunity to open the Israeli service sector to U.S. competition and to obtain specific commitments to reduce Israeli subsidy and other nontariff practices that distort U.S. trade.

Over the past five years, U.S. imports from Israel have increased more than 70 percent from $749 million in 1979 to $1.2 billion in 1982 and $1.3 billion in 1983. Despite this growth, however, U.S. imports from Israel constitute only about 0.5 percent of total U.S. imports. About $1 billion, or 90 percent of U.S. imports from Israel currently enter duty-free either on an MFN basis (55 percent) or under GSP (35 percent). Polished diamonds and civil aircraft are the main imports entering duty-free. Of the remaining 10 percent of total imports which are dutiable, about 40 percent consists of agricultural products ($49 million in 1982). Imports from Israel subject to duty tend to be high tariff items such as textiles and apparel, jewelry, citrus, handmade glassware, flowers, processed tomato products, olives, footwear, and bromine chemicals.

The main benefits of a free trade area to Israel as a small-sized economy would be duty-free treatment for products not presently covered by GSP and secure, predictable duty-free treatment on items currently under GSP but subject to overall changes in status, particularly if the GSP program is not renewed beyond its statutory termination date of January 3, 1985. Israel expects a free trade area would ensure free market access to two major markets—the EC and the United States—thereby encouraging investment, industrial development, and an improved balance-of-payments position.

SUMMARY OF U.S. NON-MILITARY TRADE WITH ISRAEL
1980 - Jan.-May 1984
($ millions)

	Exports	Imports	Balance
1980	1,393	941	+452
1981	1,501	1,235	+266
1982	1,529	1,162	+367
1983	1,715	1,250	+465
Jan.-May 1983	648	1,235	+109
Jan.-May 1984	792	941	+25

SUMMARY OF TRADE WITH ISRAEL, 1982

	Value ($ millions)	% of Total U.S.-Israel Exports
Total U.S. Exports to Israel	$1,529	100%
Agricultural Exports	421	28
Nonagricultural Exports	1,108	72
Dutiable Exports	609	40
Duty-Free Exports	920	60

	Value ($ millions)	% of Total U.S.-Israel Imports
Total U.S. Imports from Israel	$1,162	100%
Agricultural Imports	49	4
Nonagricultural Imports	1,113	96
MFN Duty-Free Imports	641	55
MFN Dutiable Imports	72	6
GSP Duty-Free Imports	403	35
GSP Dutiable Imports[1]	46	4

[1]GSP eligible articles that do not actually receive duty-free treatment because imports exceed competitive need limits or do not meet rule of origin or other requirements.

Source: Office of the U.S. Trade Representaive

Highlights of Meetings

Prime Minister Yitzhak Shamir, President Chaim Herzog, and Labor Alignment Chairman Shimon Peres

The delegation met with three Israeli leaders during the interim period following national elections. In addition to the FTA, the discussion centered on efforts to form a new government and the outlook for resolving Israel's pressing economic problems. The delegation explained that, as a precedent-setting agreement, the FTA would be carefully scrutinized by the Congress as the body with constitutional responsibility over trade matters. Improved trade with Israel should be pursued on the basis of market forces and mutual advantage. The delegation queried the leaders as to whether both factions of Israel's government would support the FTA, whether injurious subsidies could be eliminated, and whether the new government would be able to address Israel's economic conditions in a way that would not negate the benefits of the FTA.

All three leaders were enthusiastic about the FTA, which was initiated by Israel, and gave assurances that Israel would continue to support such a trade agreement regardless of the makeup of the government. The two major parties, Likud and Labor, have no major differences on international trade policy or Israeli relations with the U.S. Opinion polls indicated that the general public overwhelmingly supports a national unity government. Both parties were negotiating seriously to establish a viable and broadly based coalition. Such a government would permit the country to address its serious economic problems as its first priority and would put Israel back on sound competitive footing.

When questioned about Israel's reaction to possible future FTA's between the U.S. and Arab nations in the region, Prime Minister Shamir saw no reason for Israel to oppose such accords. He expressed regret that peace had not been achieved fully, but noted Israel did not envy its neighbors and would view economic improvements as an aid to peace. In fact, when Israel first proposed the FTA, it was suggested that Egypt also be included. Chairman Gibbons restated his position that should any Arab nation seek an FTA with the U.S., he would introduce the legislation personally. Each proposal, would however, have to be considered on its own merits.

The delegation emphasized the concern in the U.S. about subsidies that unfairly advantage exports, and some Members pointed to the example of tomato processing as an area where a small margin of subsidy can do great damage. In tomato processing, and the drying or canning of certain other specialty agriculture products, the static nature of the industry makes it vulnerable to small margins of price competition. If this margin is achieved through unfair subsidies, U.S. industries will be damaged and this would be an unacceptable situation for the U.S. under any FTA agreement.

The Prime Minister responded that negotiations were continuing positively and he believed the subsidy issue could be satisfactorily resolved. Shamir agreed that, in addition to subsidies, there would be problems on both sides with respect to sensitive products and industry adjustment. These problems should be resolved through staging or other means other than product exclusions. He pointed to the example

of Israel's FTA with the European Community (EC). Israel's record on implementation has been good, with no complaints about the adverse effect of its domestic subsidies. A much larger problem for both the U.S. and Israel will be accession of Spain and Portugal into the EC, but solutions must be found.

Labor leader Peres was more reserved about the possibilities of forming a coalition government, but emphasized that foreign trade was neither a partisan nor ideological issue in Israel. The Labor Party's chief economic advisor, Gad Ya'acobi reminded the delegation that it was the Labor Party who had initiated the FTA with the EC more than ten years ago. He expected the U.S.-Israel agreement to follow the EC pattern by further improving the comparative advantages of the Israeli economy. Peres noted that a national unity government would be the best way to implement difficult economic measures and to end Israel's involvement in Lebanon which was now costing Israel between one half million and one million dollars per day.

The delegation once again expressed concern that Israel's chronic balance of payments problems would cause the FTA to be circumvented if the payments situation was used as an excuse for additional tariffs or subsidies. Peres responded that the Labor Party traditionally opposes balance of payments actions, but there needs to be a better understanding of the kinds of subsidies that exist in Israel and the real effect such subsidies have on trade. Ya'acobi noted that Israel has a negative balance of trade with the U.S. and argued that economic justice and the relative proportion of the two markets would dictate a very gradual removal of Israeli subsidies.

Ya'acobi again reminded the Members that Israel was a small geopolitical island that was dependent on trade. Israel is a developing country, not reliant on cheap labor, and ready to compete on equal terms with the U.S., whereas earlier they had been hesitant about approaching the U.S. market. Israel's future growth sector would be industry rather than agriculture and, since technology rules the day now, Israel's connection with the U.S. would be extremely important; Israel will continue to be a great buyer of U.S. technology.

Upon questioning, Ya'acobi admitted that in spite of the high reputation of kibbutz and moshav agriculture, the structure of Israel's society favored industrial development. Already, 65 percent of kibbutzim output was now industrial and services rather than agriculture. While Israel expects to double its agriculture output in 10 years with improvements in irrigation, industrial production will experience a growth in volume 12 or 13 times that of agriculture. Industrial exports are expected to more than double over the next seven or eight years. While most of these exports will go to the EC and closer markets, they will mean increased imports of U.S. components, services, and technology.

The delegation emphasized the importance of GSP renewal to the implementation of the FTA over the next few years. The delegation reminded Peres that labor organizations in the U.S. remained opposed to GSP renewal and that passing such legislation would be very difficult. It is likely that renewal will include stricter graduation requirements and perhaps additional product exclusions. However, it will be important for the FTA to operate in conjunction with GSP for a few years in order for Israel to maintain its current market access in the U.S.

Peres agreed that GSP renewal was extremely important. He noted that although the U.S. labor movement were traditionally strong supporters of Israel, the AFL–CIO disagreed with the Labor Party on many issues. The Labor Party is more diverse than the labor movement in the U.S. because they have been involved from the beginning in building a nation in a comprehensive way, not just from the narrow well being of the labor force. The Labor Party contained as many soldiers and farmers as factory workers, thereby making the labor movement less homogeneous than in the U.S. However, the Labor Party has close ties to the U.S. labor movement. He hoped differences could be overcome and both GSP renewal and the FTA could be approved as soon as possible.

DEPUTY DIRECTOR GENERAL OF MINISTRY OF FOREIGN AFFAIRS HANAN BAR-ON

Minister Bar-On sought to establish the context in which the free trade area (FTA) was viewed in Israel. Territory and national security dominates every important policy decision made by the Israeli government. Recognizing that Israel is a small country with a strong sense of territory and extensive security requirements helps to explain the priorities chosen by an immigrant country engaged in nation-building. These priorities are often viewed as lopsided and, given the limited nature of alternatives, somewhat inflexible. Indeed, they have helped to create the serious economic problems the country now faces.

Because of "economies of scale", both political and economic, Israel's problems with fixing its priorities and developing a national budget will continue. Israel must look for "gaps" or areas of concentration where the country can succeed, or even dominate. The U.S.-Israel free trade area provides such an opportunity. The possibility for success under such an arrangement is reinforced by U.S.-Israel interdependence that extends to education, culture, the judicial system, business, the general outlook of people, and a host of other areas

The delegation stated that the FTA is an exciting event for the U.S. since it will be the first two-way free trade zone. Congress views the agreement as a precedent for similar future arrangements, including ones with Israel's neighbors. Israel has chosen the right path by negotiating directly and individually for an FTA and has demonstrated a "gap" where both the U.S. and Israel can achieve success. Given the past criticism of the GSP program, an FTA would place the trading relationship on a more solid footing for the long term.

However, the delegation reminded Mr. Bar-On that GSP would form the basis upon which the FTA is phased-in and finally implemented. Although both sides hoped the phase-in period would be short, GSP renewal should be viewed as an integral part of the FTA. Protectionist pressures still are waxing in the Congress, and GSP renewal likely will include substantial reduction of past benefits for the more developed countries such as Israel with due speed and GSP should be renewed in a way that most complements the FTA to ensure that Israel is protected from GSP changes. Some Members were less sanguine about GSP renewal, viewing it as extremely difficult to achieve and of diminishing value to the developing world.

TRADE MINISTER GIDEON PATT

Trade Minister Patt emphasized the difficult choices Israel is forced to make that often are hard to explain even to Israel's friends. Because Israel is so often in the limelight, interpretation of the country's problems can become exaggerated. However, there are real problems to overcome, including a military budget that makes up 20–30% of GNP and accumulated debts that require 35–40% of GNP to repay. Further trade ties with the U.S. is extremely important to Israel.

Among Israel's trade and economic problems is the fact that Israel has few natural resources including oil and water. Most raw materials have ~~to be~~ imported. Also, Israel has few contiguous markets to develop. Although trade with Egypt is expected to continue to improve—it now stands at $15–20 million annually—this market remains economically and politically strained. Many developing country markets, especially in Africa and the Far East, are closed to Israel because of participation in the Arab boycott.

In Minister Patt's view, the hardship of closed markets in the developing world actually has worked to Israel's advantage because the country has been forced to improve the quality of its exports in order to compete in the developing country markets. However, Israel's industries continue to be handicapped by the military budget. A requirement for two years of active duty for both males and females who have reached eighteen and subsequent annual reserve duty makes personnel costs extremely high for both the government and industries. He claimed that a large part of government subsidies to business is related to offsetting these military-related costs.

The Trade Minister and the delegation agreed that the sooner the government moves away from subsidies, the healthier Israel's economy will be. The delegation emphasized the importance of a commitment from Israel to end injurious subsidies, reminding Mr. Patt that implementation of an FTA would give the injury test to Israel under U.S. countervailing duty laws. Patt responded that the FTA would put into place the realization of the GATT and would include Israel undertaking the responsibilities of the Subsidies Code. However, an abrupt end to all subsidies would disrupt existing trade patterns with countries other than the U.S. and would provide an additional burden to Israeli businesses already suffering from high inflation and interest rates.

Patt reminded the delegation that Israel for the most part has a good trade record. Israel joined the U.S. at the GATT Ministerial in pushing for trade liberalization and further discipline over unfair trade practices. Israel adheres to the OECD arrangements on counterfeiting. Most subsidies are given for balance-of-payments reasons or to offset military costs thereby providing no export benefit. This led the delegation to renew its expressions of concern that balance-of-payments subsidies would become a "cop-out" used to circumvent the FTA. Patt responded that Israel intended to adhere to the GATT disciplines on subisidies and, in addition, would ensure that the relative advantages for U.S. products in Israel's market would not be disrupted. Also, it was intended that balance-of-payment subsidies be temporary and done in the context of macroeconomic actions.

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The delegation inquired about the Israeli view on rules of origin, noting that the GSP program required that 35 percent of a product's value be added in the country of origin and that the CBI precedent was similar with a 10 percent credit given for U.S. components. Israel would be satisfied, according to Patt, if the FTA used either the GSP or CBI criteria; however, he did express concern over whether the U.S. would provide adequate oversight of any products that might be passed through the U.S. to Israel.

Finally, the delegation expressed concern that the strong dollar would erode Israel's trade position and austerity measures required to meet Israel's economic problems would necessitate a cutback of imports. Patt agreed that the strong dollar has eroded Israel's trade position, especially with the EC, and has increased its trade deficit in the same manner as in the U.S. Israel has attempted to offset this by improving trade in services and tourism and by encouraging the import of capital. With respect to austerity measures, Patt did not see that U.S. imports would be adversely affected. The FTA would put the U.S. on equal footing with EC exports and, considering U.S. competitiveness and the close ties between the U.S. and Israels markets, the U.S. should be able to improve its position even if overall imports fall.

FINANCE MINISTER YIGAL COHEN-ORGAD

The Finance Minister viewed the FTA as a way for Israel to improve its economic situation, stand on its own two feet and not rely merely on the good will of its friends. Israel is a small country that must rely more and more on exports and an open economy. The long-range solution is not to restrict imports but to improve technological development that will raise Israel's standard of living and allow it to competitively pursue export markets in the developed world. Israel has already had success in developing a comparative advantage in high tech capabilities and in education.

Efforts will continue, no matter what government is in place, to address the country's severe economic problems partly by expanding exports and adding cost to imports. In the context of Israel's economic goals, the FTA is crucial. Israel must compete on equal terms in their most important markets—the U.S. and the EC. The Israel-EC agreement has been very beneficial to both sides. An FTA with the U.S. should bring even greater positive results since the two markets already are highly integrated.

The delegation noted that competing on equal terms would mean that Israel must end certain subsidy practices. Since the U.S.-Israel agreement is the first and will set the precedent for any future agreements, U.S. businesses fear that acceptance of certain Israeli subsidy practices will mean that similar practices by other countries would be exempt under future arrangements. The FTA would not eliminate the application of U.S. countervailing duty law, and continued subsidies would cause unnecessary trade disputes as the U.S. countervails against any injurious subsidies.

Minister Cohen-Orgad responded by pointing to the experience with the EC. At the time the Israeli-EC FTA was signed, neither side formally agreed to any cuts in subsidies. Very few complaints of sub-

sidy practices have arisen since then and all of them have been by Israel; the EC has not experienced any difficulties with Israeli subsidies. Most Israeli subsidies are not export incentives but offset costs to industries for social insurance and military service. Such subsidies need to be reduced in conjunction with other social, tax and monetary changes.

Israel will continue to reduce subsidies unilaterally as part of budget-cutting and economic reform.

Indexing is another difficult problem that will have to be addressed if the economy is to be brought under control. Savings, wages, taxes, and transfer payments all are indexed and inflation, now at 400%, is feeding on itself. The income tax system suffers from the fact that net collections are eroded by indexing. Indexing has allowed business and the social system to live more comfortably with inflation. Although the price will be high, a political consensus is emerging to reduce the factor of indexing. Changes will require all sectors of the economy to bear an equitable share of the burden.

The delegation emphasized that the FTA could contribute to improvements in the Israeli economy, but it must rely on market forces rather than continued subsidization or circumventions for balance-of-payments reasons. Cohen-Orgad agreed and stated that the FTA should be approached not only as a mutually beneficial trade agreement, but also as an effort for Israel to stand on its own feet at a time when many markets continue to be closed to Israeli products.

MANUFACTURERS ASSOCIATION AND ISRAEL-AMERICA CHAMBER OF COMMERCE

The delegation met separately with the Manufacturers Association and the Israel-America Chamber of Commerce. The Chamber represents services as well as manufacturing. Both groups supported the FTA, emphasizing that it will end the disadvantage the U.S. has vis-a-vis the EC in the Israeli market, but argued for a phase-in period of between five and ten years. It was felt that the U.S. had more to gain, at least initially, because most Israeli products now enter the U.S. duty-free under GSP. Israel's trade deficit with the U.S., already more than $1 billion, is expected to grow under the FTA. Last year, imports from the U.S. amounted to 25 percent of total goods imported into Israel.

Both groups expressed concern over the current state of the Israeli economy, the expected austerity measures, and the impact on Israeli producers of a phasing out of subsidies. An immediate implementation of the FTA, with a sharp end to subsidies, would be too harsh a burden on Israel's small economy. Exporters do not get price subsidies like agriculture does and, in fact, suffers negative subsidies that the government only partially compensates. Also, a worker pool of only about 300,000 persons substantially limits export potential.

The delegation pointed out that subsidies are a constant problem for U.S. business and industry. Failure to bring Israeli subsidies under control will not only jeopardize Israel's own economic health but also will cause increased friction in the U.S. market. Israeli subsidies are so complicated that, if continued, they are likely to result in lengthy

litigation under U.S. countervailing duty laws. The delegation reminded the business groups that GSP will be very difficult to renew, even at reduced levels of benefits, and GSP should be supported as integral to implementation of the FTA.

The Manufacturers Association emphasized the small size of Israel's economy—only .76 percent of U.S. GNP—and the low level of their industrial exports to the U.S.—about .27 percent of U.S. industrial imports. They also pointed to the levels of duty-free imports of each other's products—95 percent into U.S. and 55 percent into Israel. Finally, the Association argued that currency devaluations, costs of military service, high taxes (including social security) and high interest rates worked to reduce the profitability of the export sector. Israel's internal development is based on more sophisticated products, which will mean increased imports from the U.S. of components, raw materials and equipment at the expense of EC imports.

Both business groups, especially the Chamber, expressed an interest in having the FTA apply to non-tariff barriers (NTBs) as well as tariffs. This would make the FTA more equitable since most Israeli imports into the U.S. were already duty-free and these imports were being more significantly impacted by NTBs. To include NTBs also would be consistent with the U.S. interest in controlling subsidies. According to the Chamber, the two most bothersome problems are export licenses which made purchases of U.S. high-tech components unreliable, and Buy America provisions, which often foreclosed sales in the U.S. of competitive Israeli products.

Also mentioned were informal actions that hurt Israeli imports into the U.S. For example, U.S. labor unions sometimes refused to handle imported products and contracts were cancelled as a result. Also, many U.S. firms and foreign subsidiaries participate in the Arab boycott which not only interrupts trade flows but has hurt investment. Israel permits 100 percent ownership by investors and bank insurance subsidiaries are encouraged. Yet many American investors still will not come to Israel. In Israel, investors are insulated to a great degree from the vagaries of the economy by indexing and strong linkage to the dollar.

The delegation agreed with the business representatives that the FTA should not be viewed as charity to a struggling friend but as a good deal for both sides. The long-term gains of an open market for both the U.S. and Israel should be significant, and exceptions and limitations which might distort these benefits should be avoided. The FTA perhaps is more important to Israel in the short-term, and the risk is greater. Each side will require some phase-in and some conditions but they should be based on moving toward equal and open opportunities.

HISTADRUT SECRETARY GENERAL ISRAEL KESSAR AND HEVRAT OVDIM SECRETARY DANNY ROSOLIO

Although favoring FTA with the U.S., Israel's labor federation was more cautious in its support than were government officials and party leaders. Labor's major concern at this time is how Israel's existing economic problems are going to be solved. Both Kessar and Rosolio felt that the FTA likely would be an additional problem in the short-term

because of the immediate impact to Israel's industry of open access for U.S. imports. Noting that "special features of the Israeli economy" needed to be taken into consideration, both groups advocated a long transition period for implementation of any FTA.

More than 90 percent of all Israeli workers are union, covering professions running from manual laborers to professors of universities to the self-employed, including housewives. The labor unions would like to see more social services transferred to the government (currently 90 percent of health care is now provided through the unions). They recognize that hard times are ahead, but believe that Israel's economic problems can be solved through a framework agreement, comprised of a private contract, a public contract and a social services contract that will share the burden equally.

The federation would like to work closely with the government in getting the economy back in order and supports the FTA as part of this effort. They would like to have a normal economy where Israeli industry and agriculture can stand on its own feet and compete. However, they are worried about the impact of U.S. imports on Israel's small market. Parts of the economy and society are still developing, even though the country is living in the framework of a developed country. Industry must be spread to developing areas and agriculture must be preserved as a way of life.

Following Israel's trade agreement with the EC, the relative advantage shifted to the Europeans, and Israel's trade deficit expanded. The unions believe the same pattern will develop with the U.S.-Israel FTA. Attempting another agreement which may be finally implemented in 1989, the same year that the EC agreement is fully implemented, does not seem like a good strategy given Israel's overall economic problems. Kessar emphasized that Israel's policy of economic decentralization and regional development must not be compromised. He feared that the FTA would mean recentralization of business and industry in Tel Aviv and other large cities to maximize economies of scale.

The delegation expresed concern about the state of Israel's economy. They emphasized that GSP renewal would be difficult, and likely would result in lower benefits, making it important to move to the FTA as soon as possible. Chairman Gibbons stated that the U.S. cannot, and would not want, to retreat from its responsibilities to Israel, but that economic policies that help Israel stand on its own were preferable to subsidies or aid. Kessar agreed but claimed that Israel has more to risk in the FTA than the U.S. and therefore an adjustment period was warranted. The U.S. would not have to sacrifice much as a result of an adjustment period.

DR. MOSHE MANDELBAUM, GOVERNOR, BANK OF ISRAEL

In a separate meeting, Congressman Bill Frenzel (Minn.) met with Dr. Moshe Mandelbaum, Governor of the Bank of Israel. Dr. Mandelbaum was very enthusiastic and supportive of the FTA and felt that investment in Israel would be enhanced by the two-way agreement. Confident that Israel would aggressively address her current economic difficulties, whatever government was in place, Dr. Mandelbaum saw the FTA as an important element in getting Israel's economy on an

independent footing. Investment opportunities already are quite good in Israel, with few restrictions. The FTA, along with improved economic policies, would provide the long-term stability and incentive for new investment growth.

Highlights of Plant Tours and Other Visits

YAD VASHEM

As the first official stop in Israel the delegation visited Yad Vashem, the Holocaust Memorial and Museum in Jerusalem. During his welcoming remarks, Vice Chairman Reuven Dafni described the strong national sentiment behind this monument commemorating the six million Jewish victims of Nazi persecution. Following a discussion of the conditions in Nazi concentration camps, the difficulties of wartime Jewish emigration from Europe to Israel, and the efforts to locate war criminals, the delegation toured the museum. This visit graphically illustrated to the delegation the horrors of the Holocaust.

During the delegation's wreath-laying ceremony at Remembrance Hall, Chairman Gibbons expressed his hope that the civilized world would never again experience another Holocaust. Recalling his own experiences in the European theater in World War II during the Allied efforts to liberate prisoner of war and concentration camps, the Chairman described the suffering he had witnessed. He further stated his belief that the severely depressed international commerce in the 1930's had isolated countries in the world, thereby causing a rise in radicalism and militarism. He concluded that expanded trade and open commerce between all nations is the best foundation for peace.

The delegation felt that the visit to Yad Vashem and the wreath-laying ceremony was one of the most important and moving experiences of the trip. These events and the discussion of the Holocaust added a new depth of understanding to this dark period in the long history of the Jewish people.

AGRICULTURE MINISTRY DINNER

A dinner in honor of the delegation hosted by the Director General of the Ministry of Agriculture, Meir Ben-Meir, was held on August 12, 1984 at the King David Hotel. Israeli Government Agriculture officials, executives from Israel's leading agricultural exporters, directors of agribusinesses, and growers attended.

In his remarks, the Director General said that over 90 per cent of Israel's agricultural exports is shipped to European markets, primarily because of the Israel-EC Free Trade Area and because of the proximity to Europe. The bulk of Israel's agricultural exports consist of fresh fruit (mostly citrus), fruit juices, cut flowers, fresh vegetables and processed vegetables. He stressed that Israel wanted to decrease its dependence on Europe. Access to larger markets is needed in order to develop more efficient agricultural production in Israel.

He stated that the agricultural industry in Israel is faced with two limitations: shortages of land and water. He pointed out that over 50 percent of Israel is desert and that the high costs of irrigation and desalination made expansion of agriculture production difficult.

He noted that although Israel produces its domestic needs of poultry, fruit, vegetables and milk, it is still a net importer of agricultural products. He concluded that while the FTA would only effect bilateral agriculture trade at the margin, it was a most important element in the trade agreement.

DEAD SEA WORKS

On August 15, 1984, the delegation travelled to the south shore of the Dead Sea to visit the manufacturing operation of the Dead Sea Works. The Dead Sea Works is a public limited company controlled by Israel Chemicals Limited (ICL). Today, ICL is the parent company of a group of chemical enterprises engaged in the development of Israel's major natural resources—the Dead Sea brines and the Negev Desert's mineral deposits. ICL is government-owned and was initially established to coordinate and promote Israel's inorganic chemical industry. In 1975, ICL took over numerous government-owned enterprises active in the development and processing of local mineral and chemical materials. It is presently the largest government-owned holding company in Israel.

The Dead Sea Works produces potash, industrial salt, table salt and magnesium chloride extracted from the Dead Sea. Production process is based on evaporation of the Dead Sea brines by solar energy. The Dead Sea Bromine Group is composed of the Dead Sea Bromine Company, Ltd. and Bromine Compounds Ltd. These manufacturing companies produce a full range of bromine compounds as well as elemental bromine. Bromine Compounds is the only Israeli manufacturer in this field. The bromine is used in agrochemicals, dyestuffs, flame retardants, industrial chemicals, intermediates, pharmaceuticals, photography, water treatments and oil drilling. Over 90 percent of the company's output is exported worldwide.

Bromine Compounds has subsidiaries in the Netherlands, Germany, Great Britain, the U.S., Japan and South Africa. The company employs about 400 people. Activities also include joint ventures and projects with both Israel and foreign companies. Extensive research and development is utilized and its R&D budget more than doubled during the last year. The presence of a highly educated work force heavily oriented toward high technology, combined with government efforts to expand the chemical industry, has made Israel one of the largest producers and exporters of bromine in the world.

The delegation learned that the Dead Sea is one of the richest sources of dissolved minerals in the world and observed the crystallized salt layer around the edge of the Sea. The delegation observed the dredging process by which the brines are extracted or "harvested" from the sea floor. The second stage, evaporation, involves drying and curing of the extracted minerals. Thereafter, it is pumped through a floating pipeline to the nearby refinery where it is processed into potash, salt and bromine.

During a briefing for the delegation, industry spokesmen strongly urged that bromine be included in the Free Trade Agreement. They pointed out that the United States accounts for over half of the free-world consumption of bromine and brominated products. They contended there was no basis for denial of access to the U.S. market under the FTA. Further, high Israeli production costs, coupled with high

transportation costs already make it extremely difficult for the Israeli market to compete in the U.S. market.

The executives further noted the United States bromine industry opposition to including bromine within the Free Trade Agreement. It was noted that the current Israeli share of the U.S. market is only about 2.5 percent. Under a FTA, they believed the maximum increase in market share would be around 8½ percent. Finally, they pointed out that only three U.S. producers account for nearly all domestic production and are currently experiencing record growth and profits.

KIBBUTZ GAN-SHMUEL

On August 16, the delegation visited Kibbutz Gan-Shmuel and toured the tomato processing facility. Located in the citrus growing district of Hadera, about six miles from the Mediterranean coast, the kibbutz is one of 280 kibbutzim in Israel. A unique product of Israel, the kibbutz is a voluntary communal living and working arrangement whereby all means of production and land is collectively owned and operated by the kibbutz members. Originally established as farming and agricultural projects, the kibbutzim have now evolved more toward light industry and tourism with emphasis on agriculture declining.

Kibbutz managing director Shlomo Bar-Lev welcomed the delegation and described the history of the kibbutz, noting that it has grown from ten families in 1923 to over 1000 members at present. With a population of over 1000. Gan-Shmuel does not employ outside labor and trains its own members to perform virtually all levels of work. It also maintains its own educational facilities. He also described the structure of the kibbutz, its work systems and economic achievements. He emphasized that a kibbutz was really a human laboratory which enabled all members to achieve their full potential.

The Managing Director noted that the farm land of Gan Shmuel covers over 1400 acres, including acreage for cotton, citrus, avocado, and fish farms. Additional land is devoted to a large dairy farm, a turkey farm and a citrus plant. Gan Shmuel, which was founded as a settlement in 1896, established its fruit processing plant in 1940. The citrus plant, toured by the delegation, processes 40,000 tons of citrus and about 20,000 tons of tomatoes annually, nearly all of which is exported. The European Community is the primary market for export sales. The delegation also visited the kibbutz fish hatchery where fish are bred for domestic use and for export. The delegation heard explanations about the genetic work performed on the fish.

The tomato processing facility produces a full range of tomato products, including tomato juice, concentrate, tomato paste, tomato sauce for pizza and tomato flakes. Various processes are employed, such as hot-pack, frozen, dehydration and the new aseptic method. At the kibbutz plant, the delegation observed truckloads of specially grown fresh tomatoes being unloaded onto a water conveyor system which carries the tomatoes through a cleaner and sorter operation. The tomatoes are then processed through a modern hot or cold break process that results in juice. Single strength juice is produced by diversion of the juice from the paste production process, while the use of special screens results in a product for pizza.

All the products, with the exception of the flakes, are then available for asceptic packaging in bulk. The asceptic system is a highly advanced process by which products are filled into presterilized containers that can be stored at ambient temperatures without any need for preservatives. Gan Shmuel was the first citrus producer in the world to introduce this process.

Following pasturization and immediate cooling, the product is filled into pre-sterilized plastic FDA approved bags which can be packed either in a carton or open lid drum. The bags are automatically opened and closed automatically in the sterile compartment of a special asceptic filling machine and are ready for shipping to customers either for re-processing or end use. The tomato products are marketed in West Germany, Belgium, France, Great Britain, Switzerland, Italy, Japan, Eastern Europe and the United States.

The delegation noted the extensive use of research and development at the kibbutz. New and improved products, processes and technologies is a permanent feature at Gan-Shmuel. Also, the delegation was impressed with the high motivation and training of the kibbutz members. The entire production process in all lines is supervised by a highly qualified team of technicians and chemists who also work in close cooperation with the buyer.

SCITEX CORPORATION LTD.

The delegation visited Herzlia on August 14 and toured the facilities of the Scitex Corporation. One of the most innovative companys in computer imaging technology, Scitex designs and makes integrated graphic computer systems for industrial applications. Scitex products are sold in turnkey form, comprising software as well as EDP equipment and peripheral graphic devices.

During a meeting with company executives, Scitex's president, Efriam Arazi, discussed Israel's high technology industry and his company's multinational operations. He noted that a substantial portion of components and materials that are used by Scitex are imported from the U.S. Moreover, he stressed that Israel has a highly trained labor force, and pointed out that Scitex personnel frequently trains in the United States. He stated Scitex's primary market is in the printing and publishing industry.

The Scitex "Response–300" family of system automates the preparation of printing plates and cylinders for color printing in magazines, advertising, direct mail, catalogs and other publications. The Response system enables page assembly, retouching, and color correction operations to be performed at a computerized workstation. By automating the predominately manual craft of color pre-press, the multi-stage process that lead up to color printing, Mr. Arazi noted that the Response system has dramatically transformed the publishing and printing industries. In 1983, Scitex received a $4.5 million order from Time magazine. Other publications using Scitex Response systems are USA Today, Newsweek, U.S. News and World Report and National Geographic.

Scitex "Response–200" systems are used in decorative printing, in cartography for the initiation and reproduction of maps and charts, and as input and output systems for sophisticated computer-aided de-

sign (CAD) applications in conjunction with other vendors' CAD systems. Scitex laser plotters are being developed for use in seismographic energy-exploration applications. Scitex's system offers a virtual x-ray image of the structure of the earth's subsurface, providing a more precise analysis of data.

An example of Scitex's growing diversification is the development of electronic color cameras for digital input of color images. One such device is a remote portable scanner. With this system, photojournalists in the field can transmit print quality pictures back to the office in seconds via telephone lines or by satellite.

The United States continued to be Scitex's major market, where equipment sales reached nearly $30 million. Including service, sales in the United States amounted to 43% of worldwide revenues. Market development, sales and post-sale customer support of Scitex products are handled by wholly-owned subsidiaries in Bedford, Massachusetts, Brussels, and Tokyo. Scitex is establishing an integration facility for assembly of final product configuration at its U.S. headquarters. The company's common stock is traded over the counter at the New York Stock Exchange.

The advanced technology, innovative products and highly trained and technical workforce impressed the delegation. The delegation learned of the important role that research and development plays within the company. The President stated that for a high technology company to effectively compete in the international marketplace, R&D has to be the driving force. Scitex expended over 15 percent of total sales on R&D in 1983 alone. The level of government contribution amounted to about 26 percent of its total 1983 R&D outlays. Further, under the "Law for the Encouragement of Capital Investments of 1959," the company is entitled to a grant for investments in certain production facilities which have received "Approved Enterprise" status from the government. A portion of income arising from an Approved Enterprise is also tax deferred.

AGRICULTURE VISITS BY CONGRESSMAN THOMAS

Separate visits to agriculture sites throughout Israel were set up at the request of Rep. Bill Thomas (Calif.) Mr. Thomas was concerned about the impact that specialty agriculture products and processed agriculture products imported from Israel would have on the comparable sectors in the U.S. Processed products, such as canned tomatoes and dried onion and garlic, and other agriculture items, such as citrus and avacadoes, are presently faced with difficult economic circumstances in the U.S. market. As adjustments are made to new conditions, including increased imports from all sources, even minor incentives to import more might eliminate the small profit margins which have kept many U.S. enterprises in business in the current difficut economic climate.

Along with the visits to agriculture areas made by the entire delegation, Congressman Thomas spent two additional days investigating agriculture production. On the first day, Mr. Thomas travelled to Acre, north of Haifa, and visited Miluot Regional Agriculture Center. A large farm cooperative, Miluot is a center for cotton production and

has extensive food processing facilities for tomatoes and citrus grown in the region. Citrus and tomato processing are often combined since their seasons alternate. In addition, the Miluot Center provides marketing and production assistance to producers in the region.

One such enterprise is nearby Kibbutz Bet Haemek which Mr. Thomas visited next. A typically self-contained community, Kibbutz Bet Haemek combines agriculture production with light industry. The third stop was Moshav Industrial Center at Golani near Tiberias and the Sea of Galilee. Here the individual members of the Moshav are engaged primarily in olive growing and processing. During his tour, Mr. Thomas witnessed bulk shipments of green olives, not identified according to county of origin, being shipped to Jordan for additional processing. This visit was followed by a drive of more than sixty miles south along the Jordan River, which forms the border between Israel and Jordan, to the town of Jericho. This is an area of extensive agriculture development, irrigated from the Sea of Galilee and the Jordan River. The final visit of the day was Moshav Hay Ogen near Jericho.

The second day, Mr. Thomas left the delegation at the Dead Sea Works bromine facility and flew by light plane to the desert areas of southern-most Israel. Moshav En Yahau and Moshav Iddan were visited in this extremely hot, arid region. Considered important for Israel's national security, these remote cooperatives are just beginning to establish their economic base. Because of the harsh climate, the isolation and the importance to Israel's security needs, the government provides special economic incentives such as loans at preferential rates, loan guarantees, and price supports. As is the case with most kibbutzim and moshavim throughout Israel, land is provided free by the government. In fact, Mr. Thomas was informed that some farm land in the area was actually created by the government by importing up to one-half meter of top-soil in order to render the land arable.

Congressman Thomas was concerned that the structure of agriculture production in Israel provides hidden subsidies to agriculture exports. The kibbutz forms a social and economic unit of communal living and commitment to the development of the Jewish state. Most kibbutzim combine light industry with agriculture to insure economic self-sufficiency. All members of the kibbutz are paid wages equally, no matter what type of work they do, but the wages are returned to the kibbutz to distribute for the benefit to the entire community. Mr. Thomas learned that these wages are assessed at a uniform rate of approximately $120 per day, regardless of the type of work. The kibbutz provides housing, clothing, food, health care, schooling, child care, etc.

Workers in a kibbutz often rotate from agriculture production to the factories to the leadership open positions that govern the community on a schedule established by each kibbutz. It was clear, however, that the kibbutz had the advantage of easily moving its labor force from one type of production to another as economic conditions or production goals were changed. Although not encouraged, kibbutzim also are able to engage outside workers temporarily during periods of high demand (such as harvest).

The moshavim are individually owned farms, and to a lesser extent light industry, that work together as a cooperative. They also get

their land from the government, but each member must insure their own profitability. Members cooperate on marketing, production advice and assistance, and purchases of equipment. Moshavim are much less self-contained than kibbutzim and members do not live communally.

Because of this structure, it is difficult to determine cost of production, pricing practices or the influence of market forces. Unfair subsidies or dumping, which could be countervailable under U.S. law, may be impossible to uncover or may be so enmeshed in the structure that lengthy litigation of cases would result. Mr. Thomas was particularly concerned as it appeared that determining costs of production in this non-market setting would be extremely difficult.

Kibbutzim and moshavim members that were visited were very supportive of the FTA. They stressed that concern over agriculture exports to the U.S. should not be exaggerated given Israel's small land area and the harsh climatic conditions. Agriculture products amount to 15 percent of Israel's overall exports, and only 4 percent comes to the U.S. The ratio of such imports to total U.S. agriculture imports is less than .5 percent.

Conclusion

The delegation strongly believes that Israel is an important ally and trading partner. Members of the delegation were pleased to reaffirm their strong support for the State of Israel during their discussions with Israeli leaders. The delegation believes that the current economic situation in Israel needs the immediate attention of the new government. This is critical for Israel to maintain its viability, security, and standard of living. Reduced emphasis on indexing and subsidies would be appropriate reforms.

The delegation found that Israel has to rely on foreign trade in order to survive. As a result of limited natural resources, Israel imports a large part of its fuel, machinery, and raw materials and its merchandise trade balance is consistently negative. The United States is Israel's single largest trading partner. Therefore, the delegation agreed that it is important for the U.S. and Israel to strengthen economic relations through a bilateral trade agreement.

Israel's agriculture sector is a highly efficient industry, despite limitations on land and water. However, the delegation learned that agricultural growth is not a priority. With its small, but highly trained workforce, Israel's economy now depends on the growth of its industrial, high-technology and service sectors.

With the final phase-in of the Israel-European Community (EC) Free Trade Agreement, U.S. exporters will be an increasing competitive disadvantage in the Israeli market. Clearly, U.S. producers should be far more competitive than the EC in this growing market. In view of the fact that a substantially larger proportion of U.S. exports to Israel are subject to tariff protection than Israeli exports to this country, securing permanent access to the Israeli marketplace will provide great potential for U.S. exports.

Despite differences among the delegation regarding approach, product coverage, and certain other issues, the Members generally agreed that a U.S.-Israeli bilateral trade agreement would be mutually advantageous. The delegation strongly urges that a final trade agreement and authorizing legislation contain provisions providing for the phase-out of export subsidies, a limitation on a balance-of-payment waiver, strong rules of origin to prevent transshipments and the elimination of nontariff barriers. Should an agreement be negotiated, approved, and implemented, we intend to maintain close oversight of this Free Trade Area.

PORTUGAL

The delegation visited Lisbon, Portugal on August 18–19, 1984 and met with U.S. Embassy officials to discuss U.S.-Portuguese trade relations. Following the embassy briefing, the delegation toured the new U.S. Embassy building and attended a dinner hosted by Chargé Alan H. Flanigan.

The embassy officers pointed out that our policy towards Portugal consists of three major components: promotion of democracy, security, and trade. With respect to democracy, it was noted that Portugal has a democratically elected parliament and president. At present, the 250 deputy seats are allocated by political parties as follows: Communist Party, 18 percent; Socialist Party, 36 percent; Social Democratic Party, 27 percent; and the Center or Christian Democrats, 12 percent. The President, elected to a five-year term by direct election expiring in 1985, appoints the prime minister (currently Mario Soares).

With respect to security, Portugal is a charter member of NATO and the United States encourages Portugal to move closer to the Western European economic and defense mainstream. The U.S. is working with NATO allies to provide assistance for modern equipment and training for the Portuguese armed forces. Also, the United States is assisting in the development and defense of the Azores under a recently renegotiated base agreement.

Although U.S. exports to Portugal were up 46 percent in 1983 to 1.2 billion dollars, this was a result of civil aircraft deliveries which will not be duplicated in 1984. Exports are expected to decline this year because of government austerity measures designed to curb inflation and the country's growing foreign debt. U.S. imports from Portugal in 1983 totaled $280 million. Embassy officials noted that Portuguese agriculture, which still employs about a quarter of the population, is generally conceded to be inefficient and outdated. The country imports grain, oil seeds, milk and cheese. Only in apples, wine, olive oil and some horticultural products like oranges and tomato paste is Portugal a significant exporter.

Finally, and most important, is the fact that Portugal will be joining the European Economic Community as its 11th member in January 1986. Only a few issues in agriculture and fishing remain. As the poorest country in Western Europe, Portugal hopes to induce Euro-

pean investment and competition to improve its agricultural and industrial capacity. It is expected that Portugal will phase into EC Common Agricultural Policy rules. For example, EC regulations will compel the Portuguese to reclassify their wines and to upgrade their vineyards to EC standards, thereby closing down low quality ones. The delegation believes that the Portuguese accession to the EC is a significant trade development and should be closely monitored.

APPENDIXES

APPENDIX A: SUBCOMMITTEE PRESS RELEASE, AUGUST 7, 1984, ANNOUNCING TRADE MISSION

[Press release, Aug. 7, 1984]

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that he will lead a factfinding trade mission to Israel during the August District Work Period, August 10–18, 1984.

The Subcommittee on Trade is presently considering legislation to authorize the President to negotiate and enter into a reciprocal trade agreement with the Government of Israel providing for the elimination of duties and nontariff barriers. Negotiations toward such an agreement began in January and are expected to continue during the coming months. In addition, the proposed agreement addresses barriers to trade in services, trade-related investment issues, and other nontariff barriers.

Despite Israel's economic difficulties, Israel has emerged as an important trading partner of the United States. Even excluding military shipments, the United States historically has enjoyed a merchandise trade surplus with Israel. In 1983, U.S. exports to Israel (excluding military goods) were $1.7 billion, while imports were $1.3 billion. Many American companies participate in the Israeli market and cooperate closely with Israeli companies in research and development and joint ventures.

In announcing the mission, Chairman Gibbons noted that:

"The importance of Israel to the U.S. both as an ally and trading partner cannot be overstated. This mission will afford Members an opportunity to examine first hand the agricultural and industrial capacity of Israel during the Subcommittee deliberations on legislation granting authority for a free trade area with Israel.

"There are a multitude of commercial and political concerns affecting U.S.-Israeli trade that warrant the close attention of the Subcommittee. I believe that the proposed free trade agreement, while only a first step, would not only strengthen economic relations between our two countries, but would also provide increased opportunities to U.S. exports in the growing Israeli marketplace. Although the primary purpose of our mission is to seek the expansion of bilateral trade with Israel, I hope we can achieve similar agreements with other countries in the region in the future."

During its mission, the Subcommittee intends to discuss these and other issues with principal economic and political officials in Israel, as well as with U.S. and Israeli businessmen. Information gained from scheduled meetings will be shared fully with other interested Congressional parties and the Executive branch trade agencies. For security reasons, details of the daily itinerary will not be made public.

Mrs. Gibbons will accompany the Chairman on the trade mission at no additional cost to the U.S. Government.

APPENDIX B: SELECTED ARTICLES FROM THE ISRAELI PRESS

1. Maariv, August 14, 1984

CHAIRMAN OF THE U.S. CONGRESS NEGOTIATIONS DELEGATION: FREE TRADE PACT WITH ISRAEL WILL BE GOOD AND SUCCESSFUL

MINISTER GIDEON PATT: THE AGREEMENT IS EXPECTED TO BECOME VALID IN EARLY 1985

Mr. Sam Gibbons, the Chairman of the American Congress delegation here to examine the implications of the pact, was hopeful yesterday that the negotiations between Israel and the U.S. for the establishment of a Free Trade Zone would come to a positive conclusion.

After meetings with PM Shamir, Finance Minister Cohen-Orgad and Trade and Industry Minister Patt, the delegation leader said he envisaged a good and successful agreement. At the same time, however, he pointed out differences concerning export subsidies, stressing that the American Constitution did not provide for such subsidies. As to when the agreement would come into effect, the American representative said that the Congress legislative process would not be completed before late September.

Trade and Industry Ministry officials explained yesterday that the agreement was expected to be signed in September by Minister Gideon Patt and the American Foreign Trade Secretary William Brook and that after the signing, Congress and GOI ratification would follow. Consequently, the agreement is expected to become effective in nearly 1985.

At a lengthy conference with Minister Gideon Patt, various aspects of the agreement were reviewed. The Minister said that without an agreement on the need for a Free Trade Zone pact, American exports to Israel would be at a disadvantage as compared with the European. Now American exporters will have the benefit of the same facilities enjoyed by the Europeans under a similar agreement with Israel.

Members of the American delegation expressed concern that in the coming year, the U.S. would significantly restrict tax concessions granted to exports to developing countries, including Israel. Consequently, they said, the enforcement of the Free Trade Zone Pact in early 1985 would enable the Israeli exporters to safeguard their preferential position in the American market.

The debate also reviewed the understanding achieved at the negotiations between both countries on export subsidies, regulations of the countries of origin, and sensitive products requiring a transition period for acclimatization.

Conversing with Mr. Shamir, the Americans wanted to know whether the pact would find support in Israel even if there is a change of government. Mr. Shamir replied that there were no differences of opinion in Israel on relations with the U.S. and that Israel would not object if the U.S. established Free Trade Zones with other Middle East countries.

Shamir added that the agreement would also serve the interests of the United States.

2. The Jerusalem Post, August 17, 1984

CONGRESSMEN URGE END TO SUBSIDIES

TEL AVIV.—Subsidies are considered by most Americans as inimical to free trade, and "Israel must do away with its subsidy policies," Representative Sam Gibbons (Democrat-Florida) told a news conference here yesterday.

During the past week, Gibbons who heads a House subcommittee on trade. headed an eight-man fact-finding committee to study aspects of establishing a free-trade area between the U.S. and Israel.

All members of the committee agreed yesterday that "a free-trade area means that trade must really be free, and that no side take advantage of the other by subsidizing its goods."

The visitors, in addition to Gibbons, are: Barber Conable, Jr. (Republican-New York); Thomas Downey (D.-New York); Bill Frenzel (R.-Minnesota); Frank Guarini (D.-New Jersey); Bill Green (R.-New York); Richard Schulze (R.-Pennsylvania); and William Thomas (R.-California).

Although the subsidies were the main problem, two other problems were discussed during the visit: gradually reducing duties on imports, and ways to prevent "sensitive" products from being hurt. Earlier in the day Thomas expressed fear from the competition of Israeli tomato paste.

Although none of the speakers gave a time limit for ending subsidies in Israel, all stressed that the result would strengthen Israel's economy while testing it. The free-trade agreement would also add "vigour to the U.S. economy."

Thomas added that the agreement would help "Israel to earn its own way, and be less dependent on foreign aid." Gibbons emphasized that the agreement was "aimed at strengthening Israel, and it would not replace any other aid Israel was receiving."

3. Maariv, August 17, 1984

ISRAEL MUST ABOLISH ITS EXPORT SUBSIDIES

Sam Gibbons, chairman of the Congressional delegation now visiting Israel said yesterday that Israel must discontinue its policy of subsidies for industrial and agricultural exports. That is our position and we'll stick by it. The sooner the Government of Israel decides to abolish these subsidies, the better will be the chances of its economy to achieve stability and to become competitive on the international market. The delegation is here on a fact finding mission and is seeking first hand impressions of the positions and views of Israel's economic leaders on the establishment of a Free Trade Zone between two countries."

At a press conference held at the Tel Aviv Dan Hotel, the chairman of the delegation and its remaining members emphasized that the delegation has come to Israel in order to give the Administration the powers of conducting formal negotiations with Israel on the establishment of a Free Trade Zone.

According to Gibbons, the U.S. is prepared to form a free trade zone with another country for the first time in its history. If the agreement with Israel is ratified, "it will not commit the U.S. to establish free trade zones with other countries. To pacify Arab countries in the area, we have, nevertheless, made it quite clear that the U.S. is prepared to negotiate a free trade zone with them, though we have not had any response so far."

According to the delegation members, a free trade zone agreement between Israel and the U.S. will provide a model for further agreements with other countries, if such there be. "One thing is now clear: Israel is willing and so is the U.S."

The members of the delegation said they intended to have the bill passed in Congress as soon as possible, within thirty days, before the dispersal of Congress. They pointed out that "It won't be easy. Israel's economic and political situation is disturbing. The Knesset elections impasse is not helping to improve the state of Israel's economy."

The speakers emphasized that U.S. willingness to establish a free trade zone with Israel is extremely complimentary. "We are negotiating with a very important friendly country and we do not intend to make things difficult for it. A free trade zone between the two countries will enable Israel to penetrate the American market. Yet, if Israel persists with its policy of subsidies, I envisage many difficulties, including levies and taxes on Israeli exports to the U.S."

Congressman Sam Gibbons said the U.S. did not expect a quid pro quo. "We are sure that the establishment of a free trade zone would only consolidate the Israeli economy." It was Israel, not the U.S. which conceived the idea, Sam Gibbons reminded.

APPENDIX C. TRANSCRIPT OF PRESS CONFERENCE BY DELEGATION, DAN HOTEL, TEL AVIV, AUGUST 16, 1984

Following is transcript of news conference with Congressman Sam Gibbons and a delegation largely from the Subcommittee on Trade of the House Ways and Means Committee, Dan Hotel, Tel Aviv, August 16, 1984. Congressmen present at the News Conference were Reps. Gibbons, Conable, Frenzel Downey, Green, Guarini, Schulze and Thomas.

Congressman GIBBONS. I want to start off by saying this is a meeting of the Trade Subcommittee of the Ways and Means Committee. We're here in Israel for a very important purpose. Let me give you a little background first, but so that you know the people sitting up here at the table, let me introduce them, because we're going to all chip in on this conference. Seated right next to me is Mr. Thomas. He's a member of the Ways and Means Committee and he is from California. Mr. Frenzel is also a member of the Ways and Means Committee and the Trade Subcommittee of that committee; he's from Minnesota. The next gentleman is the distinguished—very distinguished gentleman amongst equals; he's more than equal. In fact, he's more than most of us, put together. He's Barber Conable. He is the ranking Republican on the Ways and Means Committee and he's voluntarily retiring from Congress this year, and we're losing a national asset. He's here because he has to vote on this very important piece of legislation and his counsel and his help will be most important. Next to him is Mr. Frank Guarini, a Member of Congress from New Jersey—a member of the Ways and Means Committee and a member of the Trade Subcommittee. I don't want anything to take away from his stature because of that long and lengthy introduction I gave to Mr. Conable. Next to Mr. Guarini is Mr. Downey. Mr. Downey is from New York, from Long Island, to be a little more specific. He is the principal sponsor of the Israeli-U.S. free trade area bill. Next to him is Mr. Richard Schulze. Mr. Schulze is a Member of Congress from Pennsylvania and he is also on the Trade Subcommittee of the Ways and Means Committee. And next to him is Mr. Green, Mr. Bill Green of New York—right downtown New York. He's not a member of our subcommittee but he's a very valued member of this delegation and has been very helpful in all of the work and the deliberating we've had.

Now for background, to get you kind of oriented on this trip. This is just not an ordinary Congressional visit to a friend. Years ago when the American Revolution was fought, it was fought over trade, and when the Division of Powers began in the United States Government, all the power to control the external trade in the United States is vested in the Congress. Over the years, in order to make this a functioning arrangement, we have delegated powers to the President and through the President to his negotiators to work out these kind of arrangements.

We haven't made a delegation like this, for trade negotiations, since 1974. We have never delegated to the President the power to negotiate a free trade zone on a bilateral basis, so this is a first. It's a first step with an important friend and ally but it's also a first step for the United States in a field in which we're not really familiar. Obviously this venture that we're taking doesn't bind us to take any more ventures with anyone else around the world, but I have said to the Arab nations particularly, in order to reassure them, that if they're interested in entering into a free trade zone with the United States of America. I'd personally introduce the legislation for them. I haven't had any takers on that. I've had a few interested people on that, but I haven't had any takers. Also, as you know, Canada is now petitioning to enter into a free trade arrangement with the United States. So we have a lot to learn and a lot on the table. Interacting with all of this is the expiration of something we call GSP, generalized special preference. At the urging of the United Nations and UNCTAD in 1974 the Congress granted to developing nations, Israel being one, a generalized special preference, a sort of a temporary, limited free trade arrangement in certain specific

categories and products. Most of Israel's goods already enter the United States duty free because of this arrangement. But the generalized system of preferences has not been popular in the United States Government, particularly in the Congress and so that bill or that grant of authority for low duty entry of goods into the United States expires the end of this calendar year and the chances of renewing it are very, very slim. Now that would very adversely affect Israel.

It will also adversely affect many of our other trading partners; Hong Kong, Singapore, Taiwan, Korea, to say nothing of the Central and South American countries. So we look upon this mission as one of the most serious things that we've done in the trade area in quite some time and we're glad to be negotiating with a friend and a very important friend because Israel has had a good advantage of the generalized special preferences that we've had in the past.

Now we've been here since last Saturday afternoon. We have met with all of the officials, those in government, those in Knesset and those hopefully who will be in government. We have tried to meet with the various segments of the Israeli economy, the agricultural sector, the mining and mineral resources sector, the manufacturing sector, the services sector, just to find out what they—how they perceive the problems and whether they, politically, were willing to make the kind of commitments that'll be necessary to make this arrangement successful. I believe that Israel is ready, and I believe the United States is ready. We've got some tough salesmanship to do in the House of Representatives. We've only got about a month more of working time before Congress will recess for elections and some of us will make it and some will not, but we want to get this work completed prior to that election time. In the meantime, certain informal negotiations have been going forward under the presidential authority. That authority is to sit down and talk, but that authority does not allow the President to bind the United States in any of these agreements until the Congress can pass a law that gives him the authority to bind it. Some of the power that we will probably grant to the President will allow him to proclaim, after negotiation, certain of these duty cuts. Others will require the bringing back of his negotiation to Congress for final ratification. So the process is not short, it is not simple but it is well on the way.

I think it is to the mutual advantage of the United States and of Israeli to do this. It will strengthen, and test, the Israeli economy. It will certainly add more vigor to the U.S. economy, and so, that in a nutshell is what we've been doing. I would be glad to enumerate the names of all the people we have visited. Most of you being active in the media have already covered, or know that we've been there. The staff can give you the names of all the people we talked to. Of course, as gentlemen, we will not quote their positions, or make statements, on their behalf. They're perfectly capable of doing that. Now, do any of my colleagues want to correct, add to, or subtract from anything I've said so far, and then we'll go to questions from the press. How about it, Mr. Conable, Mr. Frenzel, Mr. Guarini, Mr. Thomas?

Mr. Thomas Downey is the principal sponsor of this legislation. Tom, do you have any comments that you would like to add at this stage?

Congressman DOWNEY. No, Mr. Chairman. I think you've covered it. I think that the next month when we get back to Congress, as you pointed out, is a critical one and, hopefully, we'll be able to do both GSP and the FTA, but there is some doubt that we will do either of them and, during our trip it is important to note that all of our Israeli friends felt very strongly the need to do GSP if we don't do the FTA, well it's our hope to do one or the other.

Sam, I would like to add one thing, and that is, the purpose of a trip of this sort is both fact-finding and to reflect the responsibility of the Trade Subcommittee which as the chairman mentioned is pre-eminent under the Constitution. What it does for us in many ways, is to give us some credibility, since congressmen are generalists and not specialists in areas like trade, gives us some credibility with our colleagues, many of whom are not informed about complicated issues of international economics. It gives us a chance to focus particularly. No matter how much we read at home, we can't get the same sense we can talking directly with Israeli officials, Kibbutz leaders the people that we have been interviewing here, and it permits us to talk to our colleagues in terms they understand as politicians. So, the trip is a rather important opportunity if one takes seriously the effort to try to advance the free trade zone. This group does take it seriously and the support of the Trade Subcommittee has been constant throughout the trip and it will contribute I think significantly to the level of our dialogue with our colleagues when we return to the Congress.

Congressman GIBBONS. Now, what's on your mind, ladies and gentlemen? The floor is yours. We'll try to field the questions. If I can't field them or fumble them I'll pass them on to my colleagues here. Sure, you don't have to, but perhaps

it would work better if you'd step up to the microphone. Some of you may feel more comfortable seated where you are. I know the press is going to ask questions. I've never had a press conference in my life that I didn't get asked a lot of questions I couldn't possibly answer.

DAVID LENNON. Financial Times, London. You said that you're hoping to conclude these negotiations within a month. What are the problems that still have to be resolved, and could you detail what the differences are between the Israeli and the American views on those issues which are still in dispute?

Congressman GIBBONS. Well, I can talk about American position, I'd rather the Israelis, and I think as a matter of respect we ought to let the Israelis, talk about their own problems. One of the problems we have is that Israel, because of the nature of its economy, the rapid growth that has taken place here, has put in place a lot of subsidies.

Subsidies are an anathema to free trade. Subsidies distort the market place and subsidies, generally speaking, have to be done away with. Now, you know you can't change things overnight. So, one of the things that I'm sure we will be insisting on with the Israelis is that there be a commitment to get rid of these subsidies. The subsidies will then make the Israeli economy, in my opinion, more efficient, more vital and better able to survive in a world atmosphere. I think that's what the Israeli leaders and thinkers want. They've got to be able to survive at a competitive world environment. And so, subsidies will be a big problem. There are some other items that our International Trade Commission has found to be sensitive items. On those items we'll probably ask the Israelis and they'll probably have reciprocal items to ask us for, for phasing in of reductions of duties in those areas. So, those are the principal areas of negotiations that have to be carried on. The Israeli subsidies, the sensitive products that we have on both sides, giving time for those sensitive products and industries to adjust to free trade competition.

Congressman GIBBONS. Mr. Schulze of Pennsylvania.

Congressman SCHULZE. When we did the Caribbean Basin initiative many of the media people sort of played it as salvation for the economies of these countries and it was not being sold that way. And the same is true of this. This will not cure the economic ills of Israel overnight. However, it, in the long run, should be a building block upon which a very strong foundation can be constructed and will be good for both nations over the long run. But I would not play it up as being a panacea for any ills at the moment.

Congressman GIBBONS. We'll always have our ills, and we'll always have our problems. This is a step in the right direction.

Mr. Frenzel of Minnesota.

Congressman FRENZEL. I believe that Sam has answered that question for the negotiators between the two countries and that is the U.S. executive department not the Congress. Chairman Gibbons was quite clear to state that our problem is simply to determine whether the Congress is going to give the administration the authority to complete the negotiaions and execute an agreement with the state of Israel. And therefore, if you ask us what our problems are, they are the political problems of protectionism vs. free trade in our country and whether we can convince those sectors of our industrial and agricultural economy that they are not going to be unduly disadvantaged and that there will be advantages for both sides in a free trade agreement. I would remind you that it is not easy in our Congress as in most of the parliaments of the world. Protectionism is in the ascendency, and it will be no easy political thing to pass the bill that those people at this table hope will be passed in the United States.

Congressman GIBBONS. Very good point, very good point. Mr. Thomas of California.

Congressman THOMAS. As someone who represents a group of people who have had concerns in terms of not only Israel vis-a-vis a free trade area but also the GSP agreement because many of the 10 percent of the programs that aren't under GSP are in the agricultural area. One of the things I wanted to do, and I was pleased that I was invited to come over here to talk to some of the Israelis involved in the Agricultural activities first hand, to get them to understand that the choice isn't necessarily operating under GSP or operating under a free trade area, but that it's going to be a fight to either re-authorize GSP or attain a free trade area. It isn't that the choice is going to be which one seems to be the most appropriate in benefitting Israel, and I needed to understand just how certain areas of the economy operated in the agricultural area and impress upon those individuals that if we're able to re-authorize the GSP program it

will undoubtedly be with a graduation procedure which at some point would include Israel, and that therefore, the real direction in the long run, for my perspective, was the free trade area which, even though it may entail a lot of problems getting started and perhaps even an imbalance between the United States and Israel, it at least assures a far longer opportunity for market involvement than the GSP, even with all its problems.

Congressman GIBBONS. To sum up, we are not the negotiators. We are the grantors of power to negotiate and in some cases will have to ratify specific details of that negotiation.

WESLEY PIPPERT, UPI. In general, not only on this legislation but on the aid package as well, what conditions will Congress demand of Israel this year to—in terms of Israel getting its economy in shape, what demands will Congress put in the aid package in this legislation? And I'd like both the chairman and Mr. Conable to reply.

Congressman GIBBONS. First of all let me say that I'm not an expert on aid and so I don't know what will be in the aid package. I will imagine that the aid package for Israel would not change vastly from what it has been in the past. I'm not privy to that type of discussion, but that's my general impression. Here we have an expert on aid. Mr. Green of New York.

Congressman GREEN. Perhaps I could address the question of foreign aid. I think we're probably pretty far along on this year's foreign aid package; whether it will pass as a separate appropriation bill or in the final wrap-up bill for all the pieces of the appropriations process that we have not concluded, I don't think it is clear yet, but I would doubt that we're going to be rewriting the typical kind of aid package that's been coming along this year. So I would not anticipate that this year you're going to see any major change in the foreign aid package. As you know our Appropriations Committee last year did begin the switch in much of the aid from the loan to the grant form and that was picked up by the administration in its budget proposal this year and I think Congress will certainly go along with that. The administration was making noises as we were leaving Washington on our way over here about changing the structure of the foreign aid relationship with Israel. I don't know what's happened in our absence but at least as of the time we had left Washington that had not been spelled out to us on the Appropriations Committee whether the administration was contemplating some sort of multi-year authorization or whether it would go as far as seeking a multi-year appropriation for future years, I think remains to be spelled out and obviously we in the Congress will look with interest on those proposals when we get them. But at least as far as this year is concerned I would not anticipate any change in the basic aid format from what the administration proposed in its budget message in January.

Congressman GIBBONS. I think everyone in Congress is disturbed and concerned that Israel is having such a time with its electoral process and it's not the process but the very narrow division of power that came out of the process and looks forward to Israel having a great government soon and a strong government. And perhaps from all of this adversity may come some new improvisations, we hope. We have no signal that it will, that it can get its political act and its economic act better together. Israel's future economically will depend a lot on its ability to put its political picture in proper perspective and to take the necessary steps that any nation, including the U.S., is going to have to take to bring down the heavy inflation that they have suffered.

Congressman CONABLE. Sam, I was asked to comment also. I must say that circumstances and conditions change in both countries but I would be awfully surprised if there were to be major conditions appearing in our relationship. I think the relationship must mature and evolve and I see the possibility of a free trade zone as an important evolution in that relationship going beyond simply the generalized system of preferences for the benefit of the undeveloped countries of the world. Israel is developing. It has its growing pains, it has its difficulties as we do also. But the basic relationship between the two countries continues very strong and very friendly and we approach our task here in a spirit of trying to help our relationship evolve into greater maturity and that is our purpose here, not to find new conditions to impose on our friendship.

Congressman GIBBONS. Good statement.

EMILE HALEVY, Israel News Agency Team. Apparently Israel is not able and ready to stop subsidies forthwith. I should like to know what would your recommendations be with regard to having those subsidies stopped by stages. How would that look?

Congressman GIBBONS. That is a question, of course, that our negotiators will have to work out with Israel. The sooner Israel stops the subsidies, the better off it's going to be. That is strong medicine. But subsidies produce weak industries and Israel doesn't need weak industries. The sooner it can move from a subsidized environment to a competitive environment, the better off it will be. So if I were doing the negotiation, I would want to be very tough on the subsidies. But as I say, my particular role is to grant authority and then perhaps to ratify some of it and in all of that there is an element of compromise.

Congressman FRENZEL. We have no power to tell Israel whether it can grant subsidies or not. It can run its country any way that it wishes. The problem is that if it does grant subsidies, they are likely to run into countervailing duties or dumping problems under the U.S. law. We just want to be sure that everybody knows about that and that those risks are inherent in this situation.

Congressman GIBBONS. We can't isolate Israel from our basic fundamental laws that in effect prevent subsidies or offset subsidies with countervailing duties where there is material injury to the U.S. producer. That's a basic element of American trade policy, has been a basic element of American trade policy for over a hundred years now. We recognize that all countries have some forms of subsidy. It is only when those subsidies do material injury to our producers that they're actionable under our law.

BOB ZELNICK from ABC News. Understanding that you're considering the delegation of negotiating authority rather than writing the terms of an agreement, still I'd appreciate an assessment on your part as to which of the approaches would be more inclusive in terms of the products affected and which particular products would be in one and not the other as the GSP and the FTA.

Congressman GIBBONS. Well, there is some question in my mind that I've been trying to get GSP renewed for over a year now as to whether we can ever renew GSP again as it was in the past.

ZELNICK. Let me amend the question. When you offered the political assessment of, and we're not sanguine about the chances of GSP, I assume that included a GSP bill that was specifically targeted toward a very small handful of American friends as opposed to the UNCTAD approach.

Congressman GIBBONS. No, I would imagine that if we can reenact GSP, we would have to keep it pretty broad. There has been pressure to graduate some countries from GSP, particularly the ones that have a higher per capita income, or a higher per capita GNP and Israel is right at the top of that list and then after that comes the Hong Kongs, the Taiwans, the Singapores, the Koreas, and things of that sort. Most of the GSP that we've had in the past has benefitted five or six of the countries. The dissatisfaction with that, the general protectionist type of trends we find in our country, lead me to believe and we've been negotiating on it for some time, Mr. Frenzel and other members very vigorously for the last few weeks, that we're just not going to be able to get a GSP bill passed. There's just not the votes there. So the free trade arrangement for Israel is that much more important. Because without that, most of Israel's exports would jump into the protected categories of goods and it would seriously impact their ability to export. So this is important legislation as far as Israel is concerned.

Congressman FRENZEL. I yield to the main sponsor of our bill, Mr. Downey, but I think it is the hope of those of us who are supporting the bill that we pass one without restrictions at least imposed by the Congress although there may be phase-in periods or restrictions between the negotiating states as they work out the final agreement but my preference is to impose no congressional conditions or exclusions to the agreement. I think as all of you know, GSP does have exclusions based on the percentage of import into the U.S. and on the dollar amount and I suspect if we are lucky enough to extend GSP sometime which I hope we will, the exclusions will probably be tougher and there may be a graduation based on GNP per capita which would probably mean that eventually Israel would be phased out of that anyway. That is why we need the FTA.

Congressman DOWNEY. I will agree with that but add one point. There are two different versions of the bill. My version of the bill and the house grants the authority to Ambassador Brock to negotiate more free trade while zoned with Israel and not have to come back to Congress for approval. The one of two authorities who negotiated a free trade zone and then come back to Congress for approval is the Senate version.

My understanding is that Mr. Brock prefers the Senate version and that will probably be ultimately where we are so it will be a two-step process but I agree completely with Mr. Frenzel and it is my hope that we will not deal as we did

with the Caribbean basin initiative. I have a laundry list of items that would be excluded but we will leave that to the negotiator and to Israel to work out phasing agreements and potential areas of disagreement.

JEFFREY WINOGRAD from Newsview Magazine in Israel. I would like to address this question to Mr. Conable. Mr. Conable, how do you assess the legislation discussion with the Free Trade Area in the broader context of U.S.-Israel relations?

Congressman CONABLE. American-Israeli relations are pretty good. I am a little stunned by the question. How do I assess the . . .?

WINOGRAD. How does this fit into the overall . . . between foreign aid? What we talk about, Cap Weinberger, everything else. How does this fit into the mood of Congress, the American people, is it a big political issue in America?

Congressman CONABLE. No. I don't believe it's a big political issue in America because it is—frankly, most Americans don't understand the generalized system of preferences which has been in place for ten years.

WINOGRAD. Nor do writers.

Congressman CONABLE. As you know, we are a very large market. Most Americans still think in terms of the statistics of the 60's in which 4 percent of our gross national product resulted from international trade. Now in excess of 10 percent of our gross national product results from international trade. But international trade is also an increasingly difficult subject as a result of the strength of the dollar and the comparative lack of competitiveness of American goods, given the currency disadvantages we have as a result of that. Now obviously, people of goodwill understand that we are part of the world, that we can't just live on our own market, that we are interdependent to an increasing degree, that we have different relationships with different countries, and that these relationships reflect, if they are to be stable, mutual advantage. A generalized system of preferences is a relationship that exists between countries that are seeking a modest advantage by virtue of their lack of development. A free trade zone, on the other hand, is a much more equal relationship and thus, that is what I meant when I said that to some of us this is a natural evolution among friends of mutual respect and growth and technology. It just seems to me that for that reason Israel should understand that there is an implied complement involved in our seeking to, as part of a possible evolution of our own trade policy, to establish a free trade relationship here at a time of transition, perhaps effecting patterns later on with other countries. We have turned to a traditional friend at a time when we are quite uncertain of the course of legislation in the U.S. This is the important experiment, in other words.

Congressman THOMAS. I think the timing is also very critical because we are talking about the need to reauthorize GSP. We have talked about the dangers of reauthorization and that would leave Israel with no other alternative so the FTA is timely in that regard. In addition if we change the aid structure from more of a grant to a loan, when you extend it to multi-year rather than single year, your average taxpayer who is out there looking at the whole foreign aid question in the first place, then begins focusing on what appears to be more of a package of pure welfare rather than the kind of assistance that may not go on forever, but when you talk about grants and multi-year operations, so the free trade area, and at least the way I'm talking to my people back home, is also an opportunity for Israel to earn its own way by allowing them access to the market. So, yes it's a maturation process but I think the timing is also critical because it's an opportunity situation as well to change the relationship in a mutually beneficial way.

Congressman GIBBONS. Let me add somthing here. I think is implicit in the question that was asked, is America throwing a bone to Israel because we want to take something else away from it. The answer is flatly "no". We look upon this as a basic strengthening of the Israeli economy so that it can stand on its own two feet—to normalize relationships more between our countries. This is not being done in order to take something away on the other side of the coin or the other side of the table. Let me say, we did not initiate this negotiation. The Israeli government initiated this negotiation and sought out the U.S. to enter into this kind of agreement. I'm now not trying to speak for the Israeli government but as you know, they have had a free trade arrangement with the European community now for almost ten years. It is obvious that the trade between Israel and the European community has vastly increased and the strength of the Israeli economy has vastly increased because of that arrangement and I think it was working from that kind of analogy that the Israeli government says, "Let's go to another friend, a friend a little further away and see what we can work

out." There are great historic examples of how people have been able to compete—the Hong Kongs, the Singapores are the best examples that I can think about. Their economies are very strong and very vibrant because they are willing to go out and compete in a very big economy and therefore gain a great deal of economic efficiency and vitality.

Congressman GUARINI. Sam, I would like to say that there is a still greater picture and at a time that there is rising protectionism in the world, I think it is very significant that the U.S. and Israel move together. There is not only a unique relation between our countries but an awareness on the part of our committee, I believe, and perhaps our government, that these rising barriers is only counterproductive to the peace question and if it is true that trade is the currency of peace, certainly we want to lower those barriers, not only with Israel, but with all nations of the world, so that it's historic, this bill Senator Downey has placed in, that is placing us in a reversal of the trend that the U.S. itself and other countries have been going in. So that what we are really seeing today is an effort on the part of the U.S. Congress in lowering the protectionism that is happening throughout the world and hoping that by having a closer relationship betwen the economies of all countries of the world, it would be indeed a greater atmosphere for peace.

WASHINGTON POST. I have a two-part question. Can somebody put a dollar figure on what kind of (inaudible) we have now or what we're talking about stimulating from this kind of free trade zone? Second of all, is anybody up there disturbed about reports from Washington that at least the Israeli side of these negotiations have had access to the American government?

Congressman GIBBONS. Well, let me take the last question first, and the answer is "no". We don't know how the Israeli people got hold of the information from our J.S. Trade Council, the ITC. I read ITC report. There's not that much to it. I don't think they gained any competitive advantage by that, frankly. Secondly, we've got all the figures here, rather than give you, spit them all out to you. We've got them right here, we'll just pass them out. That would be the most accurate thing to do. Want to follow up on that?

Congressman FRENZEL. This morning I think we decided that after the agreement was reached with the European Community in the time that has intervened, the Israeli exports to the EC have increased about three times and EC exports to Israel have increased about twice. We would think that with the dynamism of the American market and the growth of the American market, and with the Israeli capacity to develop high tech exports, there should be a greater potential for Israel in the future agreements and in the past one.

QUESTION. Earlier one of the Congressmen, I'm not sure who now, had mentioned that there is going to be a pretty big political battle in the next month and I think Congressman Thomas (I'm not sure if he represents a District where he may have some problems with his constituency) ; how big a political problem is it since you have elections? I would even ask why you are all here, except Mr. Conable, when you should be back in the district?

Congressman GIBBONS. Well, sure it is going to be a political problem. Anytime you try to grant trade negotiating authority you run into a lot of vested interest and I'm not throwing off on them who say no, we don't want to. You know, you live here in the Tel Aviv area, or I guess most of you are in this area, you look around at all these orange groves, you think my orange growers want anymore competition? I've got letters from them saying you know, let them have everything but don't give them any orange concessions. Well, that's not fair, you know. We're going to have to do all those things. So we've all got problems. But we came here mainly to not try to solve the individual problems that we have. We came here to try to make one of these value judgments as to whether or not we should grant the negotiating authority, now much of a negotiating authority should we grant, what should we require the Administration to bring back to us, or what should we allow them to proclaim and then to try to get it through Congress.

Congressman CONABLE. Fortunately we can't wait until next year, which is what we'll have to do if we don't do it now. I think most of my colleagues would prefer to be home campaigning, but this is important.

QUESTION. Well, do you think most of the Congressmen will summon the courage to support Israel?

Congressman CONABLE. They'll have to speak for themselves on that.

Congressman THOMAS. Let me tell you that there are political questions particularly on the part of labor so that it cuts both ways that question. My constituents are not now affected because of GSP and the way its structured. They would be affected under a free trade area and so it just seems to me that my job is to be here to understand first hand what the situation is here rather than sit over there in ignorance and hope I get re-elected so that I can continue to make decisions that are uninformed. So I would rather attempt to be here and risk not coming back to make an informed decision than to stay there and have the alternative. So the job is to be informed to make the right kind of decisions and that's why we've here.

Congressman GIBBONS. We can speak with a little more assurance and a little more authority. Let me say we have really talked to a lot of people and seen a lot of the industries of this country, at first-hand knowledge, and during the debate in the committee and on the floor there is going to be a lot of those questions that have to be answered. We are going to pass this bill, in my opinion, but I don't want anybody to think it is a pushover.

Thank you very much. We appreciate your coming and the seriousness of your questions.

APPENDIX D. MANUFACTURERS ASSOCIATION OF ISRAEL, MEMORANDUM AND PRECONDITIONS

MEMORANDUM

ADVANTAGES AND OBLIGATIONS ARISING OUT OF THE FTA AGREEMENT—THE ISRAELI INDUSTRY'S VIEWPOINT

Introduction

Israeli industry welcomes the possibility of the creation of a Free Trade Area between the United States of America and Israel.

In the same way that Israeli industry in the past supported the signing of a Free Trade Area Treaty with the countries of the European Economic Community—despite all the fears and dangers involved—so also as regards the United States. But, as in the past, so also today, certain preconditions are necessary to permit us to utilise the treaty as an incentive for the development of industry in Israel. The agreement with the EEC gave Israel, because of its inferior position, an adjustment period of 14 years.

Israeli industry is aware of the danger existing from the possibility of a worsening in the GSP system, as well as the possibility of equalising levies in the event that we do not sign the Subsidies Code. Despite these dangers, in view of our economic and geopolitical situation, and taking into consideration the difficult undertakings which the United States places before us, we propose a number of objective preconditions to enable us to sign the agreement.

1. PRECONDITIONS TO THE SIGNING OF THE FTA

(*a*) Israel and the U.S.A. will sign a Free Trade Area Agreement without linking this to signing of the Subsidies Code.

(*b*) In spite of the fact that the FTA is based purely on economic advantages, we do not accept the idea that calls for equal reciprocity, because of the different conditions pertaining in the two economies as compared with one another, and the dangers involved to the Israeli economy as a result of the exposure it will face.

(*c*) The Israeli Government must enact the following laws: Anti-dumping Law, Special Levies Law, Buy Israeli Law and a law to preserve and to activate regulations relating to controls on imports.

(*d*) Israeli industry is concerned that Israel is going to pay a heavy price in order to join the FTA, while other countries that might follow suite will enjoy the same benefits which Israel achieved, but without paying a similar price. Therefore, as part of this agreement, Israel has to receive assurances that similar subsequent agreements between the U.S. and any other country will be examined through the benefits Israel gave and received in its agreement with the U.S.

(*e*) The period of tariff reductions will be minimal for Israeli exports and will not exceed two years.

(*f*) The products now under the GSP agreement will automatically enjoy zero customs duties, and the GSP criteria will no longer hold. The GSP agreement will be extended as long as the FTA agreement has not gone into effect.

(*g*) Tariff reductions from which Israel will benefit will include all industrial products, as well as processed food, textiles and clothing, with no exceptions.

(*h*) Stiff regulations and controls will be applied regarding Certificates of Origin, so that Israel will not be flooded by products from U.S.-owned companies from the Far East.

(*i*) Under no circumstances will the tariff benefits given to the U.S. on a specific products exceed benefits given to imports of the same product from Europe.

(*j*) A special committee, consisting of representatives from the United States and the Israeli Ministry of Industry and Trade, as well as representatives of individual industries from both countries, will be established to handle problems that might arise from the agreement.

(*k*) Parallel to the negotiations, a committee defined in "j" above, will be established for the purpose of formulating regulations and rules of origin.

(*l*) Being concerned with Israeli-made products, our opinion is that Israel should insist on the following product lists and schedules:

List A: Sensitive products, tariffs on which should not be removed during the first ten years of the agreements.

List B: Products on which tariffs can be removed immediately.

List C: Products not included in List A, but which are included in the agreement with the European Economic Community, tariffs on which will be phased out by 1989.

(*m*) Most of the non-tariff barriers in the U.S. should be removed.

(*n*) There will be a transitional period during which Israel will be given an opportunity to request changes in the agreement. The agreement will include protection of infant industries.

(*o*) Thought will have to be given to the "Buy America Act" and how it relates to the new agreement.

2. PRECONDITIONS TO THE SIGNING OF THE SUBSIDIES CODE

Israeli industry recognizes that Israel will have to sign the "Subsidies Code", as was done by other GATT members, but not before the following conditions are met:

(*a*) As long as Israeli exports are hurt by a distorted exchange rate, there is no other way to preserve realistic returns on exports and the competitiveness of Israeli products overseas, but through a system which will compensate for the loss accruing from these distortions. At the present rate of inflation every change causes a substantial lag in devaluation and affects export profitability. The subsidies which compensate for the above distortions can only be phased out when the exchange rate reflects the real value of the shekel at every point in time. This is possible only if the trade deficit and the rate of inflation drop to levels similar to those in European countries and the United States. Under such circumstances we will agree to reduce the subsidies.

(*b*) Because of Israel's unique geopolitical situation, we should not agree to cancel the system of financing, subsidies and aid given to industry today, as long as the trade conditions for Israeli products and their competitive products on foreign markets are not equal. When comparing these conditions, one must take into consideration a long list of direct and indirect expense burdens carried by the Israeli manufacturer, over and above those carried by competitors overseas. These burdens arise from Israel's security, geographic and political situation.

(*c*) In light of the points mentioned in "a" and "b", Israel reserves the right to change its system of finance and subsidies according to its national needs and its unique geopolitical situation, until the end of a period of adaptation.

(*d*) Industry will strongly reject any agreement which will freeze the policies of the export encouragement during the transitional period. This period will last at least five years. Phasing out of subsidies after the transitional period will be possible only if the conditions result in a realistic exchange rate. In any case, the subsidies will not be lower than a certain level which will allow compensation for other distortions that might exist after the transitional period.

(*e*) The length of the period after the signing of the agreement, during which Israel will not be subject to reexamination and to the possibility of countervailing duties and taxes, must be longer than that acceptable in the case of other developing countries which might sign the agreement. The period will last not less than twelve years, when we believe we will have eliminated our trade deficit.

(*f*) Israel will have an escape clause allowing her to stop implementation of the agreement at any time that the economic situation in Israel demands it, of course with previous consultation with the United States.

APPENDIX E. ISRAEL-AMERICA CHAMBER OF COMMERCE & INDUSTRY MEMORANDUM TO THE DELEGATION

The Israel-America Chamber of Commerce welcomes the distinguished members of the Congressional Ways and Means Committee and Appropriations Committee under the leadership of Congressman Sam M. Gibbons. The Israel-America Chamber of Commerce hopes the discussions now being held between the Governments of the United States of America and of Israel for the establishment of a Free Trade Area (FTA) will reach a successful conclusion.

The 700 members of the Chamber comprise all the major sectors of the Israel economy such as: manufacturers, exporters, importers and services including banks, airlines, lawyers, accountants, etc.

Should the signing of the Agreement be postponed for any reason whatsoever after January 4th, 1985, namely, the expiry date of the G.S.P. Agreement, the position of the Chamber is that our two Governments should seek the appropriate means and channels for the extension of the G.S.P.

THE ISRAELI MARKET

American exports to Israel have increased sizably, contributing to the U.S. balance of payments. Last year alone, imports from the U.S. amounted to 25% of the total goods imported to Israel ($2.2 billion out of total imports of $8.6 billion to Israel). Moreover, American assistance to Israel amounts to $2.6 billion. The analysis of these figures clearly indicates that Israel can be considered a major market for the United States. Israel imports twice as much as Sweden from the United States and about the same amount as Italy. Furthermore, it should be noted that such traditional destination countries for exports as the United Kingdom and Germany import only $10 billion worth of products each.

RECIPROCAL AGREEMENTS

In 1982, 55.9% (or $650 million) of Israeli exports to the U.S. entered duty free as a result of international agreements. Under the G.S.P. understanding 38.6% of the Israeli exports ($448 million) paid no duty, and only $64 million, 5.5% of Israeli exports were dutiable If we assume that the FTA Agreement with the U.S. will be signed, only around 5.5% of Israeli exports to the U.S. will actually benefit from the Agreement. Diamonds and emeralds represent 36.9% of the total Israeli exports to the United States or $428 million. That leaves only $734 million worth of bona fide industrial exports which will benefit from the agreement in the long run. In 1982, 44.8% of imports from the U.S. to Israel benefited from tariff reductions under the GATT Agreement. Of these, 22.1% were duty free. Tariff reductions on 22.7% of its imports ($354 million in 1982) were accorded by Israel to the United States under the G.S.P. Consequently Israel actually paid for concessions that other countries with G.S.P. Agreements may not have done. Thus after signing the FTA Agreement, the U.S. will be assured that 45.2% of its exports to Israel (or $705 million) which are currently unbound by any agreement, will in fact be included.

200,000 JOBS

According to a Statement of Principles on U.S. Trade Policy as adopted by the Board of Directors of U.S. Chamber of Commerce, estimates are that every $1 billion in exports create from 30,000 to 50,000 jobs in the economy, and that one out of six manufacturing jobs depends on exports, and one out of three agricultural acres produces for exports. It can be concluded that Israel provides over 200,000 jobs for American workers. On the other hand with a total manpower comprising 300,000 workers, Israel's exports to the U.S. have reached only $1.3 billion or 0.5% of imports to the U.S. Thus, Israel's exports pose no threat and

cannot in any way affect the American economy. For Israel to double its exports to the U.S., these must grow at an annual 14% average during the next five years, and even then they will represent only 1% of total U.S. imports. Israel's exports to the U.S. do not compete with local American manufacturers but rather with other foreign suppliers of imported products. This competition can be only beneficial to the American economy.

FTA VERSUS EEC

An FTA would permit U.S. exports to compete more effectively in Israel with those from the European Community, especially after 1989, when the remaining EEC-Israel duties will be lifted. U.S. products will then enjoy equal status with EEC products (in 1983, Israel's imports from EEC countries amounted to $3.5 billion), and be in a better position vis-a-vis the Far East and other countries. It is essential to take into consideration the benefits accorded to both sides, and the obligations imposed upon both sides, and the short and long term consequences of the Agreements. In order to examine these, it is necessary to consider the relatively small size of Israel's trade in the overall American trade, and the likely consequences of this trade upon the American economy.

Israel's development is based more and more on the production and exports of sophisticated products. For their manufacture, it imports metal working machinery, electronic components, electronic production and test equipment, computers and peripheral equipment, communication systems and aviation and avionics equipment. Israel is currently buying substantial amounts of such products from the U.S.; an FTA will strengthen the trend of buying from the U.S. rather than from other areas of the world.

As a result of the FTA Agreement, U.S. manufacturers will be in a position to export raw materials and components from the U.S., establish subsidiaries in Israel for the processing and finishing of products which will then be exported duty free to Europe.

UNIQUE ECONOMIC PROBLEMS

One of the central problems of the Israeli economy is the chronic Balance of Payments deficit. This is financed mostly by loans and partly by grants. This deficit has grown between 1979 and 1983 at an average annual rate of 8% reaching over $5 billion in 1983. As a result of the deficit, Israel's external debt has grown at an average annual rate of 10.6% between 1979 and 1983, reaching $25 billion.

In 1971, military expenditures in the United States amounted to $618 per person, whereas in Israel the figure reached $823 per person. The figures in 1980 were $573 for every American, and $1,205 for every Israeli. As a percentage of the GNP, military expenditure in the U.S. was 7% in 1971 and 5.5% in 1980 whereas for Israel this was 22.7% in 1971 and 29.1% in 1980. Thus, the relative burden of military expenditure in Israel in 1980 was over five times greater than that imposed on the U.S.

SPECIAL BONDS

An FTA with Israel would strengthen the special economic bonds that now characterize the two countries' political and military relations. It would also enhance the Mid-East peace process by providing a trade incentive to other countries for their cooperation in that peace process. In this way, an FTA provides political as well as economic advantages.

Increased trade would make Israel more self-sufficient, thereby increasing Israel's purchasing power and helping decrease its economic dependence.

We are confident that the people of the United States and of Israel will both benefit from a Free Trade Area Agreement, which epitomizes the basic principle of equal opportunity.

THE ROLE OF THE CHAMBER

The Israel-America Chamber of Commerce feels it can play an important role by issuing Certificates of Origin for goods manufactured in Israel, thus ensuring that only such products will have free entry into the United States.

APPENDIX F. EXTRACTS FROM SUBMISSION OF DEAD SEA BROMINE CO., LTD.

RE INVESTIGATION NO. 332–80 PROBABLE ECONOMIC EFFECT OF PROVIDING DUTY-FREE TREATMENT FOR IMPORTS FROM ISRAEL

(1) "The U.S. bromine alliance" opposes the enactment of a F.T.A. (and) claims that the Israeli industry produces bromine at a cost below that of domestic producers, that the abandonment of U.S. tariffs will cause a flood of imports which will satisfy whatever growth in consumer demand may occur over the next several years, as well as erode current markets to the extent that the domestic industry would suffer serious setbacks.

(2) DSB submits that the fears of the alliance are wholly unfounded the U.S. bromine producing industry is in excellent health and the elimination of tariffs for Israeli importation will not adversely impact this industry.

(3) The cost of producing brominated products in Israel is as high or higher than U.S. production costs.

(*a*) Dead sea brines are 2½ times more concentrated than Arkansas brines, however DSB's energy requirements are substantially greater because Israel's brines are "cold" and must be heated to 230°—240° F, while U.S. underground brines exist at natural temperatures in excess of 200° F. Moreover D.S.B. has had to invest substantially to provide for its own chlorine supply, an expense not required by members of the alliance. While, from a business stand point, the alliance's opposition to competition may be understandable, the elimination of tariff walls will, at best, slightly diminish the competitive edge enjoyed by domestic producers. What it cannot accomplish is to give the Israeli industry—subject to comparable costs and much higher transportation costs—a competitive advantage.

(*b*) By their own admission members of the U.S. bromine alliance are competing with DSB in the international market successfully and profitably—without enjoying the advantages of protective tariffs . . . while international markets are but an additional outlet. For the U.S. industry, whose home base is, by far, the largest bromine market in the world, demand in Israel is such that DSB is compelled to target virtually all its marketing efforts in the international market place.

(4) Three producers account for almost all U.S. production; over half of total free world consumption occurs in the U.S.; of total U.S. consumption all is currently supplied by U.S. production, with the exception of approximately 2-2½%, accounted for primarily by Israeli production.

Great Lakes Chemical Corp. (the world's leading producer) sales figures indicate that neither competition within the U.S. nor competition outside the U.S. have affected their growth sales in 1983 were up 13.8% over 1982, and sales in 1984 are running at an all time high.

(5) In spite of a clear picture of excellent economic health and growth potential the U.S. industry is repeatedly citing government imposed bans on the use of ethylene dibromide and low capacity utilization as evidence of ill health and vulnerability to foreign competition.

We submit that these are misleading:

The President of Great Lakes is quoted (in the chemical week of February 15, 1984) "EPA's most recent ban . . . will have absolutely no negative impact on the present or future business of our company".

The director of Brine Products, DOW Chemical Corp. is quoted (in the chemical week of March 21, 1984): "The big three players in the bromine game have been cognizant of the eventual phase-out of EDB . . . and right now bromine is very tight."

The significance of U.S. capacity utilization-figures as an indicia of the health of the U.S. industry has been greatly exaggerated. It is our opinion that there is, currently, a shortage in U.S. bromine supply, and that this shortage is likely to continue for the next several years.

(6) The alliance claims that if tariffs are eliminated, importation from Israel will increase from the current 10 million to over 30 million dollars per year by 1985. Not only is this figure totally unsupported by any economic data, it defies reason. Over half of the products set forth in the alliances statement have been and are entitled to the benefits of the G.S.P.; several others are subject to ad valorem rates of duty of 5% or less. Let it is the alliance's claim that the lifting of the tariff walls with respect to the remaining 25% of the enumerated products will result in a three-fold increase in imports. This projection ignores the realities that, even without the tariff walls, D.S.B. will not enjoy any competitive advantage in the U.S. market.

Even if we accept the alliance's estimates, Israeli imports would then account for a mere 7% of total U.S. consumption, the remaining 93% would come wholly from the alliance.

Moreover, even the 7% consumption rate is overstated as it assumes that bromine consumption will be static. Both GLCC and Ethyl Corp have gone on record to refute such allegations, as have independent observes.

CONCLUSION

Prospects for the continued growth of the U.S. brominated product industry are extremely bright. For the short term, the economic recovery and the near completion of the EDB phasedown will contribute to significant growth. In the long run, new product development and the expansion of current applications which are in their infant stages of utilization are also encouraging.

A potential increase in Israeli production will have no adverse impact upon the domestic industry. Even the inflated projections of the alliance would result in minimal market share attributable to Israeli production. At best, the elimination of tariff barriers will enable the Israeli's to improve its competitive position to some degree but, because of high transportation costs and efficient methods of production in the United States, the U.S. industry will always enjoy the competitive edge.

Finally, because of the unique structure of the brominated products industry and the increasing importance of its products, additional sources of supply will, in the long run, be of significant benefits to the economy of the United States.

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